Eurogas Corporation

2006 ANNUAL REPORT

Eurogas

International energy projects

SPAIN: Underground Natural Gas Storage

TUNISIA: Offshore Exploration and Development

Eurogas Corporation is a Calgary, Canada-based company whose common shares trade on the TSX-Venture Exchange under the symbol EUG. Eurogas is focused on creating long-term value through the development of high-impact energy projects. The Corporation is developing a major underground natural gas storage facility in Spain, and conducting exploration and development programs for oil and natural gas offshore Tunisia.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 2:30 p.m. (Eastern Daylight Time) on Thursday, May 17, 2007 in the Dundee Corporation Boardroom, 28th floor – #1 Adelaide Street East, Toronto, Canada.
Shareholders are encouraged to attend. Those unable to attend should complete and return the form of proxy.

An Information Session will be held at 2:30 p.m. (Mountain Daylight Time) on Thursday, May 24, 2007 at Bankers Hall meeting rooms A and B Calgary, Alberta.

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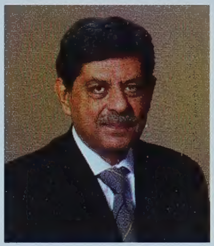


Jaffar Khan
President and
Chief Executive Officer

One of the key requirements for the timely development of underground natural gas storage facilities is the presence of a cohesive, workable regulatory framework governing its activities. In the past the regulatory framework in Europe, in general, has not been aligned with industrial and strategic requirements in an environment of ever-increasing dependency on natural gas in Europe's overall energy equation. The critical need for a stable supply and an efficient distribution system is motivating regulators to provide clarity and stability to developers of underground gas storage (UGS).

On that basis I can report that I was pleased with the progress made on Eurogas' key Castor UGS Project in 2006. The project is operated by Escal UGS which is 73.7 percent owned by Eurogas. Events accelerated in the latter half of the year. Spain's Ministry of Industry continued to work positively in advancing the UGS sector's regulatory framework, and the year culminated with issuance of a key Ministerial Order. Meanwhile, Escal advanced the project on the technical, financial and managerial levels. The Castor Project will be a regulated utility forming a crucial element of Spain's energy infrastructure, requiring successful completion of the complex permitting process including the grant of the Exploitation Concession.

By any measure, Castor is a large and impressive project. It was conceived by Eurogas and was advanced in a period that was years ahead of its time – Eurogas had an accurate vision of the future shape of Spain's evolving and growing natural gas infrastructure. Castor will fulfill one-third of Spain's requirements for natural gas deliverability – and nearly 100 percent within a key economic region of Spain. In some respects, the Castor story has been one of Spain's natural gas industry and governmental/regulatory situation catching up to our vision. Adequate natural gas storage has been articulated as an urgent requirement by the Spanish government, and the Castor Project has been identified as the primary candidate to fulfill this need.

Regulatory Progress – As mentioned above, the Castor Project requires a handful of major permits. Foremost among these is the Exploitation Concession, which is the over-arching project permit. Others are the environmental permit, the coastal domain permit and the construction permit. There are many linkages among these key permits.

The regulatory environment in Spain has evolved dramatically over the past year. On March 31, 2006 the Spanish government officially approved the 2005 update of the Spanish Gas and Electricity Infrastructure Plan. In this plan Castor was designated "A Urgent", the highest possible category in government planning.

The Ministerial Order published on December 29, 2006 was an important step forward for regulatory clarity and for the Castor Project. Under the order the government's remuneration regime for UGS became more positive. The changes are meant to provide a stable and acceptable financial regime for UGS development, with specific provisions for the Castor Project to be defined in the Exploitation Concession. Many aspects of the remuneration system have been made explicit where, previously, uncertainty existed.

The new regime provides important incentives to developers by shifting certain risks to the energy system. It shortens the payback period for total investment in facilities from 20 years to 10 years, while continuing to provide 50 percent of the annual financial returns for the following 40 years. The Ministerial Order also articulated certain guarantees with respect to the pre-operational period, which protects our investment and reduces risks. We are happy with the outcome and are optimistic that the new rules will provide the basis for strong project financing, a prerequisite for any large infrastructure project.

Another element of the approval process was the independent study by the Spanish Geological Survey, at the request of the Ministry of Industry, of the Castor model and conclusions concerning the depleted oil reservoir and its suitability for UGS service. The Geological Survey endorsed the project in January 2007, providing technical affirmation from an independent, official, and respected third party. This will be helpful on a number of levels.

Augmenting our Capabilities in Spain – In 2006 Escal took two important steps to strengthen our ability to fulfill the technical and regulatory tasks that lie ahead. We always felt it would be important to have an alliance with a credible company in Spain. Last year's agreement with ACS Group, one of Spain's leading companies, to provide engineering services and to facilitate development of the project, strengthens our position substantially.

ACS quickly initiated the FEED study, the crucial engineering document that is described in the review of operations on the following pages.

Enhancing Escal's Castor team in Spain was another important task. The team was strengthened by the additional of specialists in project management, facilities and pipeline design, procurement, permitting, construction and other areas. Their reputation, integrity and experience add to our credibility and sends the message that Escal is a serious player capable of developing an infrastructure mega-project in Spain.

Oil Production – We had previously discussed our hope to produce oil that remains in the Castor reservoir on a stand-alone basis. It has become clear that regulatory and permitting requirements will not allow for stand-alone oil production without seriously jeopardizing permitting for the UGS development, which has always been, and remains, the priority. We no longer intend to exploit the oil independently of the gas storage operation. If the quantity of oil remaining in the Castor reservoir is such that oil production is warranted, extraction will take place concurrently with UGS construction.

Cost of the Project – Virtually all major infrastructure projects have dramatically increased in cost over the last two to three years. The Castor Project is no exception. The current indications are that Castor could require an investment of €800 million. Protecting the project's economics is the fact that, as a regulated utility, Castor's cash

flows will be structured to recover the capital investment, and gross revenues will rise along with the cost of the project.

Financing Strategy – Eurogas has talked about the importance of a financing strategy for some time, and last year we developed that strategy. Deutsche Bank was retained by Escal to provide financial advice with a view to structuring the senior debt financing that will fund the project. We believe the retention of Deutsche Bank enhances the credibility of the Castor Project and bodes well for obtaining a project financing package on favourable terms.

The new Ministerial Order should provide additional underpinning to assembling a solid project financing package. Having this package will, in turn, strengthen our capabilities in other respects. Just as the regulatory and permitting steps are largely inter-dependent, so are the Castor Project's technical and financial aspects.

Eurogas is solidly financed to continue the pre-construction phases of the Castor Project. A rights issue in October 2005 raised proceeds of $32 million. As of December 31, 2006 the company had working capital and lines of credit in the amount of $23 million.

Outlook for Castor UGS – I believe events are going to start moving quite quickly. All over Europe, views are changing with respect to UGS. Spain's natural gas system continues to evolve and to grow in size and sophistication. The ownership structure of Spanish utilities is changing, reflecting the importance given to the energy sector, with major companies taking positions in Spanish utilities and developing energy projects on their own account.

The critical need for natural gas storage was recognized in the past, and the regulatory environment has evolved such that new projects can now begin.

Tunisia – In Tunisia, Eurogas embarked on a strategy to ensure its 1 million acre permit at Sfax is exploited in a timely fashion. Eurogas entered into a farm-out option agreement for the exploration of the majority of the permit, while retaining three prior discoveries which we plan to develop with our partner.

Corporate – The Board of Directors wishes to welcome Jay Poscente as a new member of the Board. Mr. Poscente brings an extensive business and financing background to the company as he has started and managed numerous companies involved in a wide array of businesses, including oil and natural gas.

As many readers are aware, 2006 marked the loss to Eurogas of the Corporation's founder and past chairman and CEO, Julio Poscente. The back page of this report contains a retrospective on this visionary businessman who touched so many lives over his lengthy career. As an eternal optimist, Jules would appreciate us remembering him and taking inspiration from his example – but not in letting his passing throw us off our game.

Accordingly, for 2007 we have realistically achievable plans for both Spain and Tunisia, as outlined in the review of operations on the following pages. We must remain open about the fact that, in each area, we are dealing with numerous parties and working to resolve numerous matters. This is inevitably time-consuming. Each project must continue to be regarded as a multi-year undertaking. Such is the reality of complex international energy projects. That said, we fully expect to make substantial progress in advancing both the projects. Our mandate is to build value for the shareholders, and the best way we can do that is to ensure governmental acceptance, technical depth and financial viability. I believe we are doing just that for the shareholders.

Acknowledgements

Major projects such as those being undertaken in Spain and Tunisia require patience and dedication on the part of shareholders and management. I thank our shareholders for their patience and our major shareholder, Dundee Corporation, for its long-term support. Finally, I thank the Eurogas and Escal teams for their dedicated work through 2006.

On behalf of the Board of Directors,

M. Jaffar Khan
President and Chief Executive Officer
March 15, 2007

Recaredo Del Potro
President, Escal UGS
SPAIN

Luis Carmona
General Manager, Escal UGS
SPAIN

Lynda Paananen
Controller
CALGARY

Bruce W. Sherley
Executive Vice President & Chief Operating Officer
CALGARY

Andrew Constantinidis
Vice President & Chief Financial Officer
CALGARY

HOW BIG IS CASTOR UGS?

The Castor Underground Natural Gas (UGS) Storage Project is a large infrastructure facility being developed on the Mediterranean coastal region of Spain to serve the industrialized east coast, including Barcelona and Valencia. It entails the conversion of the abandoned Amposta oil field to natural gas storage.

STORAGE CAPACITY: 1.9 BILLION

Cubic metres (67 bcf) storage capacity

The Castor structure is 5 km in length, 2.5 km wide and up to 250 metres in depth.

The underground reservoir's size and porosity provide a large storage volume equivalent to 14 LNG transportation tankers.

WITHDRAWAL RATE: 25 MILLION

Cubic metres/day (880 million cubic feet/day)

The Castor Project will provide approximately one-third of Spain's UGS deliverability requirements and virtually 100 percent of the region's UGS capacity.

The high daily injection and withdrawal rates are equivalent to a large LNG regassification plant – an important competitive advantage.

INVESTMENT COST: €800 MILLION

(C$1.3 billion) to design, construct and commission

The Castor UGS Project is a significant investment in supporting Spain's natural gas infrastructure. Project costs will be further refined during the Front End Engineering and Design (FEED) study currently underway.

Overview

Eurogas in 2006 made substantial progress in its multi-year program to convert the depleted Amposta oil reservoir to a natural gas storage reservoir as part of the Castor Underground Gas Storage (UGS) Project.

Spain's natural gas distribution system is evolving along with steady growth in demand for natural gas. Adequate storage is necessary to provide Spain with a reliable, modern natural gas system. Eurogas is majority interest-holder of the Castor UGS Project through its 73.7 percent ownership of Escal UGS, headquartered in Madrid, Spain.

Corporate Highlights

In October 2006 Eurogas' Spanish subsidiary, Escal UGS, entered into an Assistance Contract with the leading industrial group in Spain, ACS Group, for the development of the Castor UGS Project. Under the terms of this contract, ACS will undertake the Front End Engineering and Design (FEED) study and provide permitting and licensing services. The FEED study will result in detailed engineering designs and the determination of a fixed price for the project investment, and form the basis for the award of a turnkey contract for Engineering, Procurement and Construction (EPC).

In December 2006 Escal broadened its cooperation with ACS by entering into a Collaboration Agreement for services in addition to the FEED study. The scope of the additional services includes ACS acting on behalf of the Company in dealings with governmental and regulatory bodies regarding project approval, implementation and remuneration. In addition, ACS will subscribe, subject to a shareholders' agreement, for a redeemable 5 percent equity interest in Escal. This relationship enhances Eurogas' capabilities in Spain, increasing the Company's capacity to complete the Castor project.

Also in 2006 Escal supplemented its project management team with the addition of several key professionals with expertise in project management, facilities and pipeline design, construction, permitting, drilling and other specialties.

Castor is the first new UGS project to be developed under Spain's current energy regulatory regime. The Ministry of Industry is finalizing regulations relating to the ongoing permitting process of the Castor UGS Project. Escal has provided input to the roadmap being completed by the ministry.

The Spanish Geological Survey reviewed the Castor UGS Project at the request of Spain's Ministry of Industry, and in January 2007 provided strong positive support regarding the reservoir's technical suitability for UGS operations. This offers further assurance to potential financial and other parties by an official, independent and respected third party.

City of Vinaroz, close to Castor UGS facilities

2006 ACCOMPLISHMENTS

1

In 2006 Escal submitted its Exploitation Concession application and its Environmental Impact Study to Spain's Ministries of Industry and Environment, respectively. These are two key approvals required for the Castor UGS Project.

2

In October 2006 Escal launched the Front End Engineering and Design (FEED) study for the Castor project. This $4.6 million study is the key document leading to the engineering, procurement and construction process.

3

Beginning in October 2006 Escal substantially augmented its project management capacities with the hiring of a highly qualified technical team.

A MEGA-PROJECT THAT HAS ATTRACTED TOP TIER PARTNERS

Escal initiated two key partnerships in 2006 to drive the Castor UGS Project forward.

ACS Group, Spain's foremost engineering and construction company, has agreed to take a 5 percent interest in the Castor Project, is the project's lead engineering firm, and will act on Escal's behalf to facilitate development of the project. Deutsche Bank AG is Escal's financial adviser with a mandate to assist and advise on a variety of matters that relate to the valuation and ultimate financing of the project. The immediate goal is to identify and then proceed to implement the most appropriate financing structure.

Regulatory

Any infrastructure project as large as the Castor UGS Project must expect to undergo a lengthy regulatory process, and Escal is working cooperatively with the authorities to complete the procedure as quickly as possible.

The Castor UGS Project was first recognized in the Spanish energy infrastructure plan in 2002, and was granted "A Urgent" status in the most recent update issued in March 2006. Escal submitted its application for the grant of the Exploitation Concession, the primary project permit, in 2006. The environmental approval process was initiated in 2005, the Environmental Impact Study was submitted in 2006 and in mid-2007 this study will be updated with new data from the FEED study.

Following the grant of the Exploitation Concession, a number of secondary permits will be required, including:

- Construction Authorization;
- Occupation of the Marine Domain;
- Project Execution Authorization;
- Public Interest Declaration; and
- Regional and local permits.

It is the publicly stated intent of the Ministry of Industry and Spain's National Energy Commission to urgently develop UGS facilities to reduce Spain's dependence on daily volumes of imported gas. In order to provide incentives and stability for the UGS sector, the Ministry of Industry issued a ministerial order amending and updating the remuneration system for UGS projects. The new regime provides improved returns and shifts certain risks to the energy system. Many aspects of the remuneration system have been made explicit where, previously, uncertainty existed.

Remuneration

Each year Spain's Ministry of Industry issues a ministerial order that updates specific values for remuneration payments and every four years the remuneration system is reviewed; 2006 was the fourth year. Ministerial Order ITC/3995/2006 provides the detailed remuneration system for UGS. Remuneration includes three components: capital repayment, return on investment, and operating and maintenance costs.

The capital cost of the project is returned in equal payments over the useful life of the asset. The capital cost is the actual, audited cost of the project. The useful life of UGS facilities is set at 10 years except for the cushion gas injected into the reservoir, which has its useful life set at 20 years.

4

In December 2006 Escal extended its relationship with ACS, Spain's leading industrial and construction group, to assist in the development of the project. ACS will subscribe for a redeemable 5 percent equity interest in Escal.

5

In December 2006 a Ministerial Order from Spain's Ministry of Industry improved the remuneration terms for UGS projects providing financial guarantees that reduce financial risks.

6

In March 2007 Escal signed a contract with Deutsche Bank AG, one of the world's leading banking companies, to provide financial advisory services.

Return on investment is equal to the net investment times the remuneration rate. The net investment is the original investment less the accumulated repayment of capital. The remuneration rate is equal to the Spanish government 10-year bond rate plus 3.5 percent and is set for the full useful life of the facility. As of January 1, 2007 the remuneration rate was 7.21 percent (3.71 + 3.5 percent).

A provisional remuneration regime may provide early payments for the period between the granting of the concession and the start-up of the facility. After the end of the useful life, payments equal to half the capital repayment plus the return on investment continue for the remaining period of the concession (total of 50 years).

Payment for operating and maintenance will include both a fixed component and a variable component, which are updated each year by an inflation factor less a margin for improved efficiency.

The ministerial order also provides guarantees regarding repayment of project costs should the project not proceed within five years from the grant of the Exploitation Concession. The order also provides for a minimum after tax rate of return, as a floor, through the 50-year period.

Technical

In October 2006 Escal commenced the Front End Engineering and Design (FEED) study. This crucial engineering document will be prepared over a nine-month period by ACS, Escal's Spanish partner. The FEED study will generate a detailed package covering design, specifications, cost estimates and project scheduling. It will serve as the basis for the engineering, procurement and construction contracts.

The preliminary findings of the FEED process have improved the design of the Castor facilities. One key change is to construct two offshore platforms instead of one. The first will be a small wellhead platform that will enable drilling of wells prior to installing the main platform, which reduces development time. The second platform will contain major process facilities including injection compression and, during the withdrawal cycle, liquids separation, liquids disposal and gas dehydration. The small platform will be large enough to include oil production facilities should the decision be taken to evacuate oil remaining in the reservoir. (see "Oil Production"). A second change is to install compression facilities onshore and offshore, instead of constructing one large onshore facility. This will enable the use of standard 30" diameter pipe operating at moderate pressure to transport the gas.

The onshore plant will be designed to include equipment to extract impurities from the produced gas prior to re-injection into the pipeline system to meet pipeline specifications of the national gas distribution system.

Technical work in 2006 also included further analysis of the 3-D seismic shot over the Castor reservoir in 2005. The latest interpretation includes an Acoustic Impedance model, sharpening resolution of the reservoir geometry from a normal 25 metres to less than 5 metres. This has helped to identify intervals of porosity, which will aid in locating injection/withdrawal and monitoring wells. The latest well configuration includes eight injection/withdrawal wells, four monitoring or observation wells, and one disposal well, for a current planned total of 13 wells.

TWO OFFSHORE PLATFORMS

Artist's illustration of the offshore Castor UGS facilities

Oil Production

Regulatory and environmental approval constraints have caused Eurogas to change its plans to produce oil prior to UGS operations on a stand-alone basis. To remain in accordance with regulatory guidelines, any oil development will be integrated with UGS operations. There is some uncertainty as to the volume of remaining oil, which will be resolved once additional drilling determines the oil/water contact. If the quantity of oil remaining in the reservoir warrants extraction, oil production will take place concurrently with the UGS construction phase.

Shell Oil produced 55.6 million barrels of oil from the Castor reservoir between 1973 and 1988. Escal's first development well, Castor 1, drilled in January 2005 to evaluate the suitability of the reservoir for gas storage, flow tested oil at a restricted rate of 2,807 barrels per day with no water indicating the field was not fully depleted. The volume of oil remaining in the reservoir is difficult to estimate as Castor 1 did not penetrate the current oil/water contact. Drilling was suspended at 1,800 metres subsea which was 75 metres into the gas storage reservoir but some 140 metres above the original oil/water contact. Plans are to move a drilling rig back onto Castor 1 to deepen the well to 2,000 metres subsea. Data obtained will assist in the design of the UGS facilities and will quantify the amount of oil remaining in the reservoir.

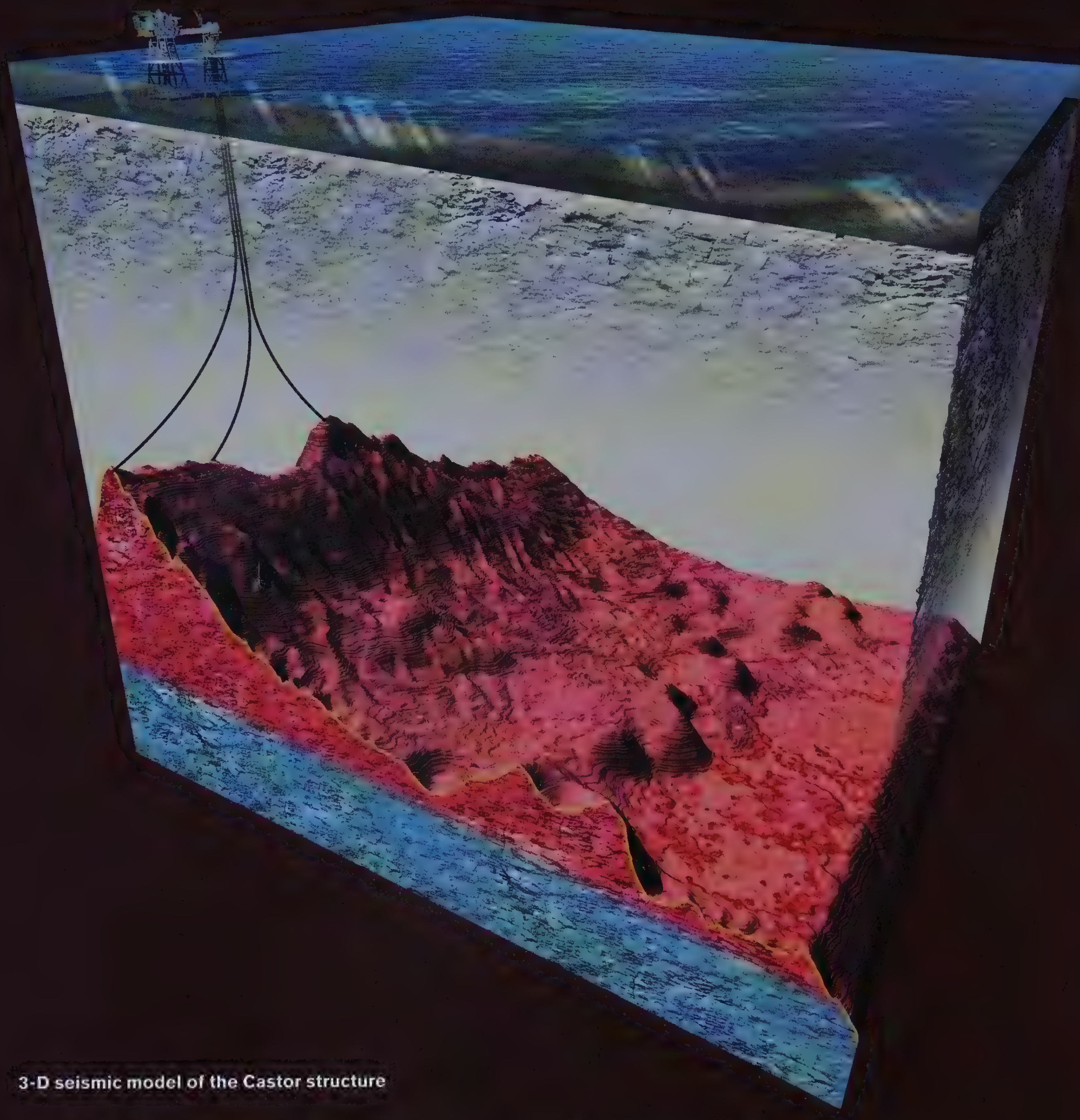
Geostock

In 2006 Escal engaged Geostock, an engineering consultancy that specializes in UGS, to provide expert input on the design and operation of the Castor project. Based in Paris, Geostock has designed and operates several European UGS projects, and is advising other companies on new installations. Geostock has provided advice on the behavior of the reservoir and on the design and operation of the UGS facility.

2007 Work Program

For the remainder of 2007 and into 2008, Escal has planned the following work on the Castor UGS Project:

- Complete the FEED study and the EPC contract, and continue detailed engineering work;
- Receive the Exploitation Concession from Spain's Ministry of Industry;
- Update the environmental approval application based on the early results of the FEED study;
- Launch the secondary permitting process in mid-2007 as developed by the Ministry of Industry; and
- Begin implementing Castor project financing.



3-D seismic model of the Castor structure

CASTOR UGS RESERVOIR

The UGS Process

1 Natural gas is received from the national gas pipeline system

2 Onshore facilities receive and compress the gas to 100 bars

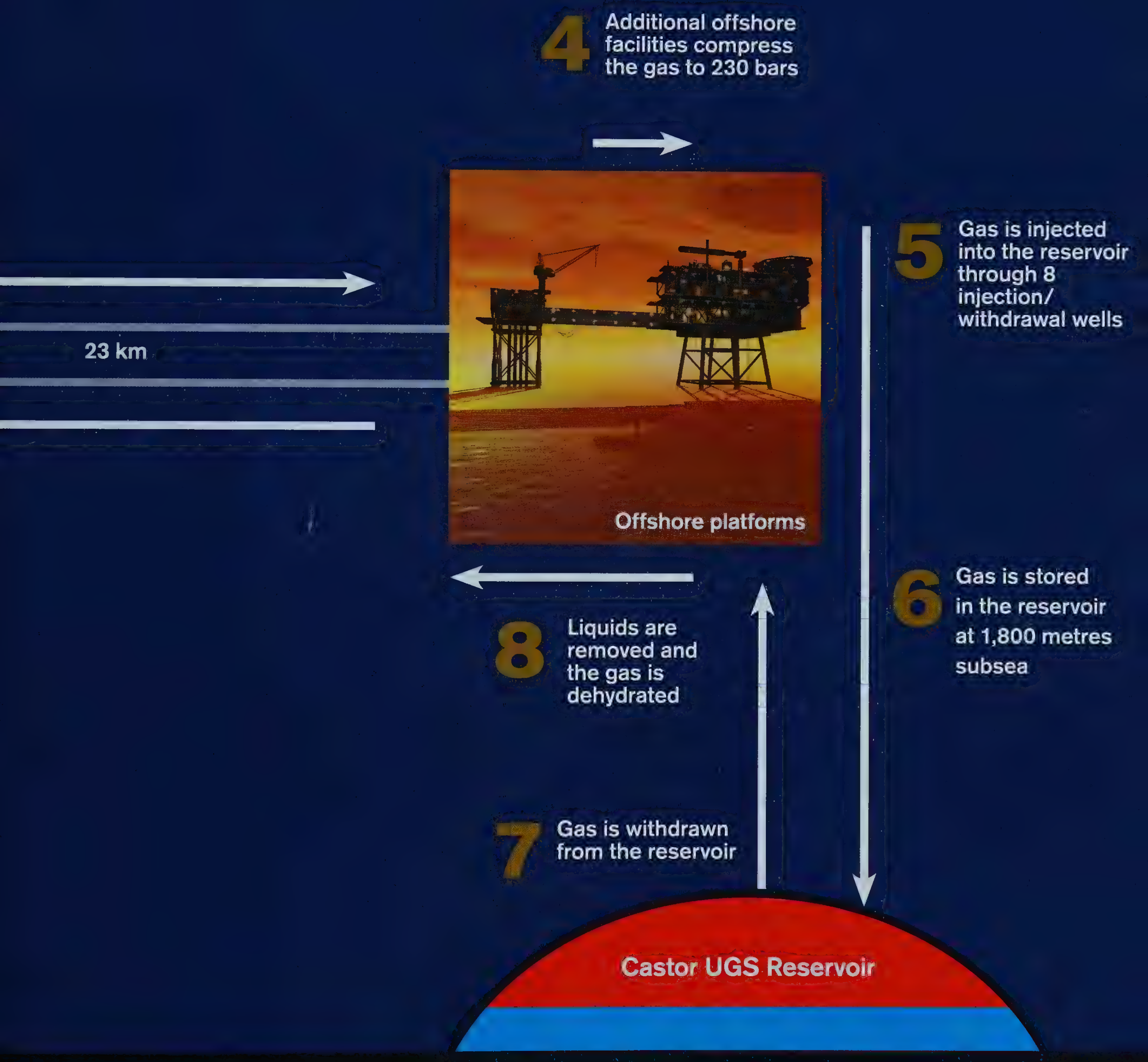
3 The gas is transported to the offshore platform through a 30” subsea pipeline

15 km

11 Natural gas is returned to national gas pipeline system

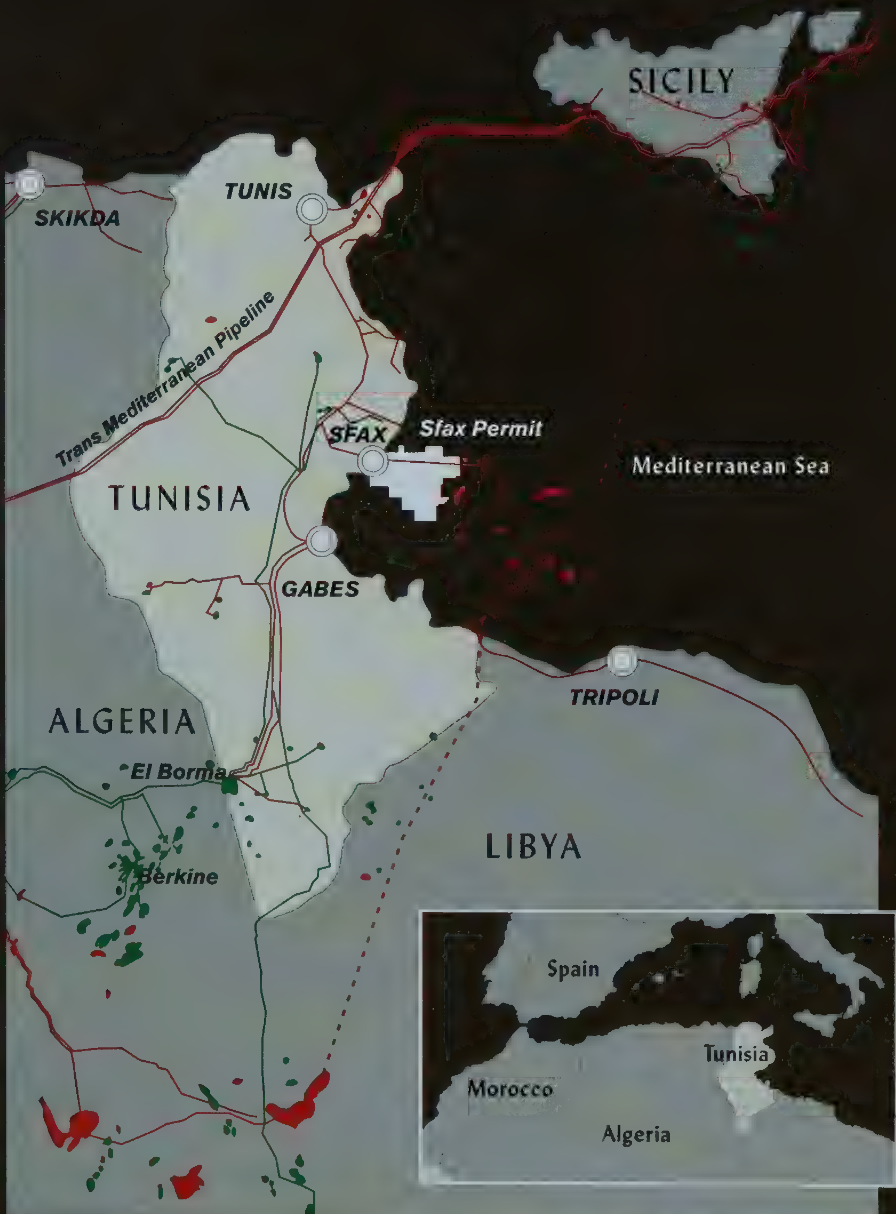
10 Impurities are removed in the onshore facilities

9 The gas is transported to the onshore facilities using the same 30” pipeline

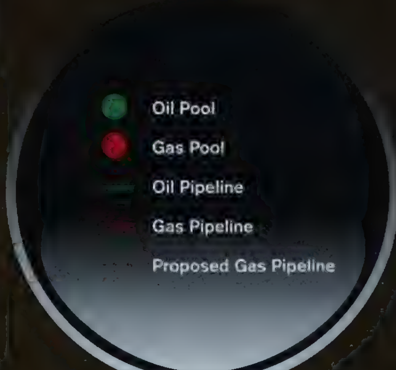

4 Additional offshore facilities compress the gas to 230 bars
23 km
Offshore platforms
5 Gas is injected into the reservoir through 8 injection/ withdrawal wells
6 Gas is stored in the reservoir at 1,800 metres subsea
8 Liquids are removed and the gas is dehydrated
7 Gas is withdrawn from the reservoir
Castor UGS Reservoir

THE SFAX OFFSHORE PERMIT

Multiple prospects on a 1-million-acre block



Eurogas has a 45 percent working interest in an exploration permit covering a 1-million-acre block in the Gulf of Gabes offshore of the city of Sfax, Tunisia. The permit is located in a prolific hydrocarbon fairway that is on-trend with a number of giant (1 billion boe or greater) oil and natural gas fields in Libya, and is directly offset by several large (10-350 million boe) producing oil and natural gas fields. The Sfax permit contains numerous geological prospects and leads, including three historical discoveries. In order to expedite exploration of the entire permit, in 2006 Eurogas farmed out the exploration acreage on the permit to a top independent company (see pages 18-19).



Participating at high working interest

Eurogas and its operating partner have embarked on a strategy that includes the development of three past discoveries. Three wells drilled in the 1970s and 1990s by previous concession-holders tested oil. One well on the Ras El Besh structure drill-stem tested at 612 bbls of oil per day. One well on the Jawhara structure tested at 1,200 bbls of oil per day. One well on the Salloum structure tested at 1,800 bbls of oil per day. All three projects were abandoned primarily due to low oil prices at the time.

Following acquisition of the permit in 2004, the partners shot a new 3-D seismic program over 348 square kilometres of the permit, which included the known Ras El Besh and Jawhara oil pools. The new seismic has provided an improved picture of the underlying geology, which will enable better placement of future wells to maximize chances of commercial production.

Tunisia has a history of political stability and solid working relationships with international energy companies. The production-sharing contract with the Tunisian government offers good terms by international standards, including accelerated recovery of capital and, by industry standards, a high share of both cost oil and profit oil for the producers.

Ras El Besh

The first prospect the partners plan to appraise is the Ras El Besh structure, as it is the lowest-risk of the three historical discoveries on the Sfax Permit. Seismic interpretation has led to the selection of a drilling location for the REB 3 appraisal well which will be drilled with a high-angle leg through the oil-bearing structure. The 3-D seismic suggests the reservoir could contain over 40 metres of net pay.

Given the current high demand for offshore drilling rigs and the high costs of drilling operations, partners are proceeding at a measured pace. In late 2006 the partners sourced and purchased a mobile offshore production unit for US$2.5 million. After minor repairs, partners take possession in Q2 2007 and the vessel will be towed to Tunisia to await results of the first well. The unit is equipped to handle production of up to 5,000 bbls per day, and could be expanded if required.

Partners have also obtained tubular supplies and a wellhead for the first new well. A suitable drilling rig available at an affordable contract price is currently being sought. The estimated cost to drill, complete and test the Ras El Besh 3 well is currently US$17 million gross, of which Eurogas would contribute its 45 percent working interest share.

1

Eurogas and its partner evaluated the 2004 3-D seismic program over two of the existing oil discoveries and are preparing to drill an appraisal well at Ras El Besh.

2

In Q4 2006 the partners purchased a US$2.5 million production jack-up platform to handle the anticipated oil production from the Ras El Besh development.

Eurogas and its operating partner are planning an appraisal well at Ras El Besh, a known pool that flowed oil at rates exceeding 600 barrels per day.

EXPLORATION ACTIVITIES

Partnering with a top exploration company

The Sfax Permit's large size (4,000 square kilometres or more than 1,500 square miles) and prospectivity led Eurogas and its operating partner to seek additional participation by a company with a strong track record and demonstrated capability that could undertake exploration on the permit's less developed leads. In May 2006 Eurogas announced a farm-out option agreement with Anadarko Petroleum Corporation and in March 2007 Anadarko began its program to acquire 420 square kilometres of shallow water, 3-D seismic.


3D Seismic Vessel

Anadarko farm-out

Anadarko was attracted to the Sfax Permit's high-impact potential and approached the partners to participate. Eurogas and its partner recognized a need for outside participation in order to explore the entire permit in a timely manner, and executed a four-phase farm-out option agreement that enables Anadarko to earn progressively higher working interests in return for substantial work commitments over a three-and-a-half-year period.

The new partner has commenced the first of two large 3-D seismic surveys, including an expensive shallow-water program, covering a planned 420 square kilometres to evaluate large structures in the Sfax Permit's northwest portion. The agreement includes an option for Anadarko to drill two exploration wells. If the seismic results are positive, the first well would be drilled, cased and tested in 2008.

The new exploration program will encompass a large area with major geological structures that had been identified on old 2-D seismic lines. The geological targets are in the area's El Garia Formation, plus two secondary objectives, one above in the Reineche Formation, and one below in the Upper Cretaceous Douleb/Bireno Formation. All three are limestone or dolomite carbonate reservoirs lying from 1,700 to 2,000 metres in depth.

Fulfilling all four option phase commitments would provide Anadarko with a 75 percent working interest over most of the Sfax Permit (except for the excluded portion discussed on the previous pages). The cash requirement for Eurogas will be zero until any economic discovery, following which Eurogas would be required to provide development capital in proportion to its working interest. Eurogas' remaining 11.25 percent working interest would still be a significant interest in any large discovery.

1

In May 2006 Eurogas and its operating partner signed a farm-out option agreement with Anadarko Petroleum Corporation, a successful independent exploration and development company. The four-phase option agreement includes two new 3-D seismic programs and two exploration wells, the first of which could be drilled in 2008.

2

In March 2007 Anadarko commenced the first of the two planned 3-D seismic surveys. Estimated at US$12.7 million, it covers 420 square kilometres of the 4,000-square-kilometre Sfax Permit.

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") provides a discussion and analysis of financial condition and results of the operations of Eurogas Corporation ("Eurogas" or the "Corporation") for the year ended December 31, 2006. The following information has been prepared by management and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2006 and 2005, together with the accompanying notes. This MD&A is based on information available as of March 15, 2007. The reporting and the measurement currency is the Canadian dollar.

Eurogas is a Canadian-based company whose common shares are traded on the TSX Venture Exchange (TSXV) under the symbol EUG. During the period, Eurogas carried on activities in Spain and Tunisia. Eurogas is focused on creating long-term value through the development of high-impact energy projects. The Corporation is developing an underground natural gas storage facility in Spain and is conducting exploration programs for oil and natural gas offshore Tunisia.

FORWARD-LOOKING STATEMENTS

Certain information set forth in this document, including management's assessment of the Corporation's future plans and operations, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Corporation's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and the ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. The Corporation's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits the Corporation will derive from them. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

All financial units in this MD&A are expressed in Canadian dollars unless otherwise stated.

INTERNATIONAL OIL AND GAS PROJECTS

Spain: Castor UGS Project

The Corporation's Castor UGS Project entails the conversion of the abandoned Amposta oil field (located 21 kilometres off the eastern Mediterranean coast of Spain) to natural gas storage operations. Management currently estimates the cost of the project at approximately $1.2 billion; however, the Front End Engineering and Design study ("the FEED study") currently underway as described below will further define this cost estimate.

Subsequent to the end of the year, the Corporation engaged Deutsche Bank to act as financial advisor for all matters pertaining to financing of the Castor UGS Project.

At December 31, 2006, Eurogas owned 73.0 percent of the Castor UGS Project through its ownership in Castor UGS Limited Partnership. Subsequent to the end of the year, the Corporation's interest in the Castor UGS Limited Partnership increased to 73.7 percent following the results of a January 30, 2007 cash call.

The Castor UGS Project was assigned the highest category, "A Urgent", in the updated Energy Infrastructure Plan (2005-2011) approved by the Spanish Government on March 31, 2006. Category "A" means the project has been unconditionally approved from a planning point of view and "Urgent" means that the project is essential to maintain the integrity of the gas system or to meet rising gas demands. This is an important milestone in the overall regulatory approval process, and means the Castor UGS Project has been accepted and recognized for remuneration in Spain's natural gas system.

The Corporation continues to work simultaneously on many aspects required as part of the implementation of the Castor UGS Project. During 2006, Eurogas invested $6.5 million in the project compared to $16.5 million in 2005.

2006 DEVELOPMENT PROGRAM

(A) REGULATORY PROCESS

During the year, Eurogas continued activities associated with required regulatory approvals: the Exploitation Concession from Spain's Department of Energy and the Environmental Impact Statement from the Ministry of the Environment. The Corporation and the Spanish Administration are working closely to define and satisfy the requirements for the grant of an Exploitation Concession for the Castor UGS Project, including the issue of the extraction of residual oil as a simultaneous activity with the construction of the UGS facilities.

The timing of the approval process is uncertain. In addition, various permits and licences will be required at the regional and local levels. This activity is ongoing.

On December 29, 2006, a new Ministerial Order (MO ITC 3995) was issued by the Spanish Ministry of Industry whereby the remuneration for underground natural gas storage facilities was established. The ministry issues an updated ministerial order every year, and every four years reviews the remuneration system for possible revision. As 2006 was the fourth year since the last revision, this year's ministerial order had some changes to the remuneration system. The declared purpose of this latest Ministerial Order is to provide an incentive for the development of underground gas storage by introducing an explicit remuneration mechanism. Management of the Corporation has estimated that the financial returns under the new provisions are an improvement over the old remuneration provisions. The regulated remuneration continues to be based on capital invested (including repayment of capital and financial return) and operating and maintenance costs. The repayment of capital has been shortened to ten years for UGS facilities (20 years for cushion gas which is required to maintain minimum pressure in the underground gas storage reservoir). The financial return is based on the net investment (total investment less accumulated repayment of capital) times the remuneration rate, which is the Spanish 10-year bond rate plus 3.5 percent. The financial returns will continue at half the 10th year (final year) rate for the remainder of the Exploitation Concession period of an initial 50 years. In the case of cushion gas, ongoing returns will be based on the 20th year. The provisional regime, which provides for the repayment during construction of a portion of capital costs, has been increased from three years to five years. In addition, the new ministerial order provides incentives to developers by shifting certain risks from the developer to the energy system and by providing a guaranteed, after-tax minimum rate of return.

(B) ENGINEERING AND FACILITIES

On October 23, 2006, Escal entered into an Assistance Contract with the leading industrial group in Spain, ACS Group ("ACS"). Under the terms of this contract, ACS began the FEED (Front End Engineering and Design) Study and initiated permitting and licensing services associated with the Castor UGS Project. Regional and local permitting is a critical activity and will require sustained effort. Support from ACS will be of great value. The Corporation has accrued fees totalling $1.1 million during 2006 (2005 – nil) associated with this contract. The FEED work is expected to take approximately nine months, is expected to cost approximately $4.6 million and will result in a fixed-price determination for the project investment. The FEED will form the basis for the award of a turnkey contract for Engineering, Procurement and Construction ("EPC"). The awarding of the EPC contract will comply with applicable public procurement provisions.

The Corporation invested $1.4 million on the FEED Study and associated activities during the year (2005 – nil). Investment related to the FEED ramped up during the fourth quarter with the successful negotiation of the Assistance Contract with ACS. The appointment of a General Manager who will oversee the design, construction and operation of the Castor UGS Project was also a key advancement of the project. The General Manager has been instrumental in assembling a qualified team of experts necessary to coordinate and monitor the FEED Study awarded to ACS.

On December 21, 2006, Escal broadened its cooperation with ACS by entering into a Collaboration Agreement for the provision of services, in addition to the previously awarded contract for the FEED Study. The scope of the additional services includes ACS acting on behalf of the Corporation in discussions with government/regulatory bodies regarding project approval, implementation and remuneration. No costs had been incurred as at December 31, 2006 related to the Collaboration Agreement. In accordance with the Agreement, ACS has agreed to acquire a 5 percent equity interest in Escal, subject to a redemption clause and a shareholders' agreement (the final price will be determined at the close of the financing of the project). ACS will also gain a seat on the Board of Directors of Escal.

ACS is the largest construction group in Spain and eighth largest in the world, with 2005 revenues in excess of US$15 billion. ACS is a global leader in the creation, construction and operation of infrastructure in a variety of industrial sectors such as: oil and gas, LNG and re-gasification, power generation and grids, railways and highways. Through its subsidiaries, ACS is one of the world leaders in the construction and installation of offshore platforms and infrastructure topsides, and it offers extensive experience in natural gas pipelines and gas compression stations.

With respect to the technical programs required to obtain a thorough understanding of the characteristics of the underlying Amposta reservoir, progress has been made in several areas. The reservoir analysis and other technical studies are now complete at a cost of $1.1 million during the year (2005 – nil). The results of these programs were considered essential before embarking on the commissioning of the FEED Study.

During 2005, capital investment on the Castor UGS Project totalled $16.5 million including the completion of a 138 km^2 3-D seismic program for $2.3 million. This seismic program will be used to optimally locate wells to maximize the volume of oil recovery and to allow for maximum efficiency of gas storage operations in the Amposta Structure. The Corporation also completed drilling and testing operations on the Castor #1 well, which is situated at the crest of the Amposta reservoir, for total expenditures of $10.5 million, then temporarily suspended the well following testing until the grant of the Exploitation Concession for the Castor UGS Project is obtained. It is the Corporation's intention to extract residual oil from the Amposta reservoir as a simultaneous activity with the construction of UGS facilities.

(C) CAPITALIZATION OF ADMINISTRATIVE COSTS

The Corporation has committed substantial technical expertise and strategic direction to the Castor UGS Project based out of the Calgary and Madrid offices. Administrative costs associated with the project are capitalized as part of the project's pre-development phase of operations. All administrative costs incurred during 2006 at the Escal office were capitalized totalling $1.0 million compared to $1.6 million during 2005. A portion of Eurogas' corporate administration is also charged to the Castor UGS Project under a service agreement. During 2006, $1.7 million was allocated to the project compared to $666,000 during 2005. The increase over the prior year is a result of the Corporation's exit from Canadian operations and increased efforts directed at international ventures, particularly increased technical and management staff.

Tunisia: Sfax Permit

Eurogas is currently conducting exploration programs for oil and natural gas offshore Tunisia in the Gulf of Gabes, where the Corporation holds a 45 percent interest in the 1.0 million acre Sfax Permit. Eurogas is the non-operating partner in the permit.

The Sfax Permit lies within a hydrocarbon fairway that trends from offshore Libya, through the Gulf of Gabes, to onshore Tunisia and includes major oil and gas fields. The Sfax Permit is surrounded by producing oil and gas fields to the west, north and east, and previous operators drilled and tested oil on three separate structures on the permit. Eurogas and its operating partner, Atlas Exploration Worldwide Ltd. ("APEX"), have implemented a strategy to develop past discoveries, beginning with the Ras el Besh structure, and to farm out the evaluation of the exploration acreage.

Evaluation of the Ras el Besh structure began during 2006. Plans are underway to drill the first evaluation well ("REB-3") under a Development Concession granted over the Ras el Besh structure. The REB-2 well, drilled in 1997 by a previous operator, tested oil from the El Garia carbonate formation at a rate of 612 barrels of oil per day. Based on interpretation of the 2004 3-D seismic survey acquired by the partners, the REB-3 well will test the crest of the Ras el Besh structure in a location that is anticipated to have up to 40 metres of pay.

Also during the year, Eurogas implemented its exploration strategy when the Corporation and APEX entered into a Farmout Option Agreement with Anadarko Petroleum Corporation ("Anadarko").

(A) RAS EL BESH

The Corporation invested $1.7 million during 2006 on activities related primarily to the assessment of the Ras el Besh discovery. Capital investment during the year included $410,283 related to preliminary costs associated with the drilling of REB-3 (2005 – nil), $79,356 (2005 – $153,884) related to seismic interpretation of the area, and $696,193 (2005 – $500,905) related to the Corporation's share of administration, supervision, studies and overhead costs incurred by APEX in advancing the program at Ras el Besh. In addition, the Corporation capitalized $521,235 of its own corporate general and administrative expenses to the Tunisian asset pool during the year compared to $270,000 during 2005. All costs associated with the Sfax Permit are capitalized as part of the pre-production phase of operations.

During 2005, the Corporation's efforts related to the Sfax Permit included the completion of a 348 km^2 3-D seismic program. Eurogas invested $1.1 million towards the processing and interpretation phase of the seismic survey. The survey more clearly defined the Ras el Besh and Jawhara structures.

In December 2005, Eurogas and its operating partner successfully converted a Seismic Option to a four-year Exploration Permit with a commitment to drill one well within the permit. If the commitment well is not completed, we could lose the permit. Further progress on the permit was made when, in July 2006, the Tunisian Hydrocarbons Committee approved a 30-year Development Concession for the Ras el Besh field.

In preparation for potential production at Ras el Besh, the partners purchased the Ocean Patriot, a production jack-up rig, and will take possession of the vessel during the first half of 2007. In August 2006, Eurogas paid US$112,500 as its share of the down payment costs for the Ocean Patriot. The total purchase price is US$2.5 million and additional funds will be required for refurbishment. Once REB-3 confirms the structure to be economic for further development, partners will commence refurbishment activities and may procure other production facilities.

Drilling plans for REB-3 have not been finalized. The drilling costs are currently estimated at US$8.5 million, a portion of which was incurred during 2006. Further Tunisian expenditures will depend on the results of the well.

(B) FARMOUT AREA

The exploration strategy for the Sfax Permit was implemented in May 2006 when Eurogas and APEX entered into a Farmout Option Agreement with Anadarko Petroleum Corporation ("Anadarko"). Anadarko can earn a maximum of 75 percent working interest in the farmout lands by completing two seismic acquisition programs, drilling two exploration wells, and reimbursing partners for up to $4.5 million of past costs. The first seismic acquisition program of 420 km^2 of 3-D shallow water seismic began activity in March 2007. The acquisition will take up to three months.

Specifically excluded from the Farmout Agreement are three areas covering a total of 50,400 acres surrounding three prior oil discoveries (Ras el Besh, Jawhara and Salloum) in which Eurogas and its partner, APEX, jointly retained a 100 percent interest and plan to further evaluate and develop these plays. Eurogas and its partner will continue to focus on evaluation of the retained areas, recognizing that they are of low risk as each contains an oil discovery by previous operators from either the El Garia or Bireno formations.

TUNISIA: EL HAMRA PERMIT

Effective July 22, 2005, Eurogas relinquished its interest in the 1.2-million-acre El Hamra Permit located onshore in southern Tunisia. Eurogas invested $271,674 during 2005 representing its share of total costs in accordance with a farmout agreement. As part of the agreement, the farmee made an upfront payment of US$500,000 and agreed to fund the Corporation's portion of costs related to the drilling of the EH-1 well to a total cost of US$5 million over which the Corporation was responsible for its 20 percent share. The EH-1 will was drilled, tested and abandoned during the second quarter of 2005.

CONSOLIDATED RESULTS OF OPERATIONS

Interest and other revenue

The Corporation earns interest income on cash and short-term deposits. During the year, Eurogas received consolidated interest revenue of $859,476 compared to $253,024 in 2005. Interest revenue increased from 2005 to 2006 as a result of increased cash on hand following the successful closing of a Rights Offering on October 21, 2005. These proceeds continue to fund the Corporation's capital programs and administration costs.

Other revenue during the year included proceeds of $66,000 received by Eurogas resulting from the sale of shares held in another company which had been written off in a prior year. During 2005, proceeds of $60,000 were recovered from a previously written off joint venture receivable.

General & administrative (G&A) expenses

Net G&A expenses for the year decreased 5 percent from $2.0 million last year to $1.9 million this year.

On a gross basis, before capitalization to international asset pools as detailed below, G&A expenses totalled $3.7 million during the year compared to $2.8 million in 2005. This translates into a 32 percent increase in administrative expenses. This increase is largely attributed to the development of the Castor UGS Project and reflects the expanding activities required by the project including staffing, consulting and travel costs.

Capitalized G&A expenses

In comparison to 2005, where $742,745 of G&A expenditures were capitalized during the period, the Corporation allocated $2.2 million of G&A expenditures to its subsidiaries during 2006 including certain stock based compensation amounts. These costs were capitalized to respective international asset pools in association with the development phase of each location, and in accordance with service agreements. The portion allocated to subsidiaries is based on the amount of employee time and resources dedicated to each international project. The 132 percent increase in capitalized G&A compared to 2005 is a result of the Corporation's complete exit from Canadian oil and gas operations and increased efforts directed at international ventures, particularly associated with the development of the Castor UGS Project where increased technical and management staff were necessary to advance the Project.

Stock-based compensation expense

Stock-based compensation expense is included as a component of G&A. Stock-based compensation measures the implicit cost of compensating personnel through the issuance of stock options and deferred share units as further described in the audited financial statements. For the year ended December 31, 2006 the Corporation incurred stock-based compensation costs of $1.3 million (2005 – $768,584), of which $835,538 (2005 – $573,584) was expensed and $433,088 (2005 – $195,000) was capitalized to international asset pools. The increase is primarily due to the issuance of 1,330,000 stock options and 70,000 deferred share units to employees and directors respectively during the year.

Debt forgiveness

On December 22, 2006, the Corporation forgave all remaining amounts owing on a non-interest-bearing loan held by the Corporation's former Chairman and Chief Executive Officer totalling $800,000 (2005 – $100,000). All security held against the loan was released including 1,000,000 common shares of the Corporation. In addition, the Corporation accrued a bonus of $511,475 (2005 – $70,000) to the estate of the former Chairman and Chief Executive Officer.

Discontinued operations

In 2004, the Board of Directors reorganized Eurogas through the carve-out of the majority of the Corporation's Canadian assets into a separate public company, Great Plains Exploration Inc., pursuant to a Plan of Arrangement.

On May 1, 2005 the Corporation sold its remaining Canadian interests in two minor, non-operated properties, which were retained for a period of time following the carve-out of assets to Great Plains, to a third party for cash proceeds of $650,000. This transaction completed the exit from Canadian oil and gas operations, with the exception of restoration obligations retained by Eurogas for any properties where petroleum and natural gas rights were relinquished prior to the 2004 carve-out.

As a result of the exit from Canadian oil and gas operations, revenues and expenses associated with these operations are presented as discontinued operations for financial reporting purposes.

Selected financial information for the operations included in discontinued operations is reported below:

(000S)	2006	2005
Revenues, net of royalties	$ 72,377	$ 177,158
Earnings (loss) from discontinued operations related to carve-out, before taxes	$ 51,092	$ (10,923)
Pre-tax gain on sale of assets	–	395,757
Income taxes	254,212	89,792
Earnings (loss) from discontinued operations	$ (203,120)	$ 295,042

Income taxes

As at December 31, 2006, the Corporation's future income tax asset was $299,000 (December 31, 2005 – $416,000) including future income tax assets of $108,000 (December 31, 2005 – $155,000) associated with the Corporation's tangible assets and foreign exploration development expense pools, and $191,000 (December 31, 2005 – $261,000) associated with share issue costs.

During the year, the Corporation recognized a provision for future income tax expense totalling $127,027 compared to $36,800 in 2005. The largest component of future income tax expense is the recognition of timing differences related to share issue costs incurred on the Corporation's October 2005 Rights Offering.

The Corporation is subject to tax on Canadian operations. A current income tax recovery of $132,000 was recognized during the year compared to $192,448 in 2005. The 2006 tax provision has been recognized on Canadian source earnings which includes interest income on cash held and interest income charged on funds advanced to international subsidiaries. The current year recovery is primarily resulting from a charge against earnings related to debt forgiven during the fourth quarter.

Included as a component of tax expense is an estimated tax liability of $92,000 related to a 2002/2003 Canada Revenue Agency ("CRA") audit. The accrued amount has been recognized in association with the 2002 sale of a Russian investment. Management has also accrued a $65,000 tax liability as part of discontinued operations. The liability relates to Canadian oil and gas development operations during 2002 and 2003.

Net loss

Eurogas' two energy projects, namely, the Castor UGS Project in Spain and the Sfax Exploration Program in Tunisia, are both in the development stage. The Corporation has not generated operating revenues since the exit from Canadian oil and gas operations in 2005. The Corporation incurred a net loss from continuing operations of $2.4 million compared to $2.1 million during 2005. The Corporation's net losses are the result of administrative and financing costs not otherwise attributed to international activities. Included in this year's loss is a charge of $1.3 million related to forgiveness of a loan held by the Corporation's former Chairman and Chief Executive Officer.

Per share information

Basic earnings (loss) per common share are computed by dividing the net earnings (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. For the year ended December 31, 2006, the weighted average common shares outstanding were 123,181,476 (2005 – 102,178,742). Diluted amounts per common share are calculated using the treasury stock method to determine the dilutive effect of stock options. The treasury stock method assumes that the proceeds received from the exercise of "in the money" stock options are used to repurchase common shares at the average market price during the period. There were no dilutive options for the period ended December 31, 2006.

Liquidity and capital resources

Working capital of $17.0 million as at December 31, 2006 has decreased from $24.7 million as at December 31, 2005. The Corporation continues to fund its Spain and Tunisia projects with proceeds received from the October 2005 Rights Offering. Included in working capital at December 31, 2006 are cash and short term deposits totalling $18.7 million.

Eurogas holds a revolving credit facility with Dundee Corporation ("Dundee"), the Corporation's principal shareholder, to a maximum of $6 million, bearing interest at the rate of prime plus 2 percent per annum, and a standby rate of 1 percent per annum on any undrawn portion of the facility. As at December 31, 2006, the full $6 million was available.

Management of Eurogas anticipates the cost of the Castor UGS Project to be approximately $1.2 billion, which will be incurred over a period of years. The Corporation will need to arrange project financing to advance the project's development. On March 5, 2007, the Corporation announced an agreement with Deutsche Bank, whereby Deutsche Bank will act as financial advisor to Eurogas with respect to the project financing.

At December 31, 2006, the Corporation's market value of common shares was $159.2 million based on the closing price of $1.29 per share and 123,424,763 shares outstanding. During the year, Eurogas issued 1,358,333 shares through the exercise of options (2005 – 866,667). The number of common shares and options outstanding at March 15, 2007 were 123,424,763 and 4,605,000 respectively.

Commitments

The following table summarizes payments due for the next five years in respect of the Corporation's contractual obligations:

Expected Payment Schedule (000s)	**2007**	**2008 to 2009**	**2010 to 2011**	**TOTAL**
FEED Study [1]	$ 4,600	$ –	$ –	$ 4,600
Advisory Services [2]	923	185	–	1,108
Lease Commitments [3]	155	310	13	478
	$ 5,678	$ 495	$ 13	$ 6,186

(1) In October 2006, the Corporation entered into an Assistance Contract with ACS Group whereby ACS began the FEED Study associated with the Corporation's Castor UGS Project at a base fee of $461,000 per month. Management anticipates that the FEED Study will take approximately nine months at a cost of approximately $4.6 million. No payments had been made as at December 31, 2006.

(2) In March 2007, the Corporation entered into a Financial Advisory contract whereby Deutsche Bank will provide advisory services related to the financing of the Castor UGS Project at a fee of $92,000 per month to a maximum of $1.1 million.

(3) Includes minimum lease commitments to landlord.

In December 2005, the Corporation converted a Seismic Option held at Sfax to a four-year Exploration Permit with a commitment to drill one well during the four-year period.

Related party transactions

Certain transactions with Dundee occurred during the year including interest and standby-fee payments totalling $66,021 compared to $265,895 last year. Payments related to the Corporation's $6 million credit facility established during the second quarter of 2005. Cash interest payments are due monthly in arrears.

BUSINESS RISKS

There are a number of inherent risks associated with the Corporation's two energy projects. Many of these risks are beyond the control of management. The following outlines some of the Corporation's principal risks and their potential impact.

Development projects

The Castor UGS Project has not yet received all necessary governmental approvals in Spain. There can be no assurance that such approvals will be forthcoming on terms acceptable to the Corporation. The Corporation does not have final project engineering designs for the Castor UGS Project, although such will be undertaken in due course. The proposed Castor UGS Project is not operational as of the date hereof and is not anticipated to be operational within the next year. The Corporation has not previously carried on business as an operator of a gas storage facility.

Development projects such as the Castor UGS Project are subject to the successful completion of feasibility studies and the issuance of necessary government permits and regulatory approvals. In addition, when construction commences, the final amount of time required and costs involved to complete the project cannot be determined. The exact effect of these factors cannot be adequately predicted, but the combination of these factors may impact the economic viability of the project.

Financing

The business and operations of the Corporation will require substantial additional capital. This includes the cost of drilling in Tunisia and the costs of completing the Castor UGS Project. There can be no assurance that the Corporation will continue to have access to sufficient capital, whether by debt or equity financing, to complete such projects. In addition, bank borrowings which might be made available to the Corporation are typically determined in part by the borrowing base of the Corporation. The Corporation currently has no material revenue sources and does not expect to have any until production commences from the Castor UGS Project, which may not occur. The Corporation will need further development of its projects to establish a borrowing base, based on proven reserves.

International operations

The Corporation's international operations are subject to special risks inherent in doing business in a number of international locations. These risks can involve matters arising out of the policies of foreign government, imposition of special taxes or similar charges by government bodies, foreign exchange fluctuations and controls, access to capital markets, civil disturbances and deprivation or unenforceability of contract rights or the taking of property without fair compensation.

Foreign currency

The Corporation's planned capital expenditures are denominated in several currencies, the most important being the Euro and the U.S. dollar, while the Corporation's reporting currency is the Canadian dollar. Fluctuations in the rate of exchange may affect the ability of the Corporation to carry out its exploration and development programs. Future development costs may be higher than currently envisioned due to unforeseen events such as currency fluctuations. Currency fluctuations will also affect future profits. The Corporation does not actively hedge against foreign currency fluctuations. The Corporation's operations are subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards.

Government laws and regulations

Foreign properties, operations and investments may be adversely affected by local political and economic developments, including nationalization, laws affecting foreign ownership, government participation, royalties, duties, rates of exchange, exchange controls, currency fluctuations, taxation and new laws or policies as well as bylaws and policies of Canada affecting foreign trade, investment and taxation. Furthermore, it is important that the Corporation maintain good relationships with the governments in certain countries in which it operates. The Corporation may not be able to maintain such relationships if the governments of these countries change.

Petroleum industry

The petroleum industry is competitive in all its phases. The Corporation competes with numerous other participants in the search for and the acquisition of oil and natural gas properties and in the marketing of oil and natural gas. The Corporation's competitors include oil companies which have greater financial resources, staff and facilities than those of the Corporation. The Corporation's ability to increase reserves in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods of reliability of delivery.

The marketability of oil and natural gas acquired or discovered will be affected by numerous factors beyond the control of the Corporation. These factors include reservoir characteristics, market fluctuations, the proximity and capacity of oil and natural gas pipelines and processing equipment and government regulation. Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. The Corporation's oil and natural gas operations may also be subject to compliance with federal, provincial and local laws and regulations controlling the discharge of materials into the environment or otherwise relating to the protection of the environment.

Reserves

There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived therefrom, including many factors that are beyond the control of the Corporation. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil and natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. Many of these assumptions are subject to change and are beyond the control of the Corporation. Actual production and cash flows derived therefrom will vary from these evaluations and such variations could be material. The Corporation does not have any reserves assigned to its properties and does not have an independent engineering evaluation report under National Instrument 51-101. The Corporation has not yet had drilling success in Tunisia on its onshore properties. The Corporation does not currently have any oil or gas production. There can be no assurances as to the quantities of oil remaining in the Amposta reservoir.

Access to equipment

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities. To the extent the Corporation is not the operator of its oil and gas properties, the Corporation will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

Impairment
The Corporation intends to use the full cost method of accounting for oil and natural gas properties. Under this accounting method, capitalized costs are reviewed for impairment to ensure that the carrying amount of these costs is recoverable based on expected future cash flows. To the extent that such capitalized costs (net of accumulated depreciation and depletion) less future taxes exceed the present value of estimated future net cash flows from the Corporation's proved oil and natural gas reserves, those excess costs would be required to be charged to operations.

Insurance
Oil and natural gas exploration operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilities or other property and the environment, or in personal injury. In accordance with industry practice, the Corporation is not fully insured against all of these risks, nor are all such risks insurable. Although the Corporation will maintain liability insurance in an amount which it considers adequate and consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Corporation could incur significant costs that could have a material adverse effect upon its financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations.

Director independence
Certain directors of the Corporation are also directors of other oil and gas companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the Canadian Business Corporation Act.

Key executives
The Corporation's success will depend in large measure on certain key executive personnel. The loss of the services of such key personnel could have a material adverse affect on the Corporation. The Corporation does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations of the Corporation are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgement, discretions, integrity and good faith of the management of the Corporation.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP) requires management to make judgements and estimates that affect the financial results of the Corporation. Eurogas' management reviews its estimates regularly but new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. A summary of significant accounting policies is presented in Note 1 to the consolidated financial statements. The critical estimates are discussed below:

Activities in Spain are in the pre-development phase. All pre-development costs relating to the Castor exploration permit in Spain are capitalized. The recovery of these costs is dependent upon the economic viability of the underground natural gas storage project.

The Corporation is currently in the exploratory stage of a drilling program in Tunisia and capitalizes all associated costs. The recovery of the recorded costs is contingent upon the existence of economically recoverable reserves, and future profitable production.

The asset retirement obligation is estimated based on existing jurisdictional laws, contracts or other policies. The fair value of the obligation is based on estimated future costs to abandon and reclaim the Corporation's net ownership interest in all wells and facilities, and the estimated timing of the costs to be incurred in future periods, and is discounted at a credit-adjusted risk-free rate. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to estimated future cash flows. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

The determination of the Corporation's income and other tax liabilities requires interpretation of complex laws and regulations, which can involve multiple Canadian jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

CHANGES IN ACCOUNTING POLICIES

On January 27, 2005, the Accounting Standard's Board (AcSB) issued CICA Handbook section 3855 "Financial Instruments – Recognition and Measurement", CICA Handbook section 3861 "Financial Instruments – Disclosure and Presentation", CICA Handbook section 1530 "Comprehensive Income" and CICA Handbook section 3865 "Hedges" that deal with the recognition and measurement of financial instruments and comprehensive income. The new standards are intended to harmonize Canadian standards with United States and International accounting standards and are effective for annual and interim periods in fiscal years beginning on or after October 1, 2006. The Corporation is currently reviewing the standards and does not expect a significant impact on the Corporation. Other standards are not expected to impact the Corporation at this time.

CONTROL ENVIRONMENT

Disclosure controls and procedures

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Corporation is accumulated and communicated to the Corporation's management, as appropriate, to allow timely decisions regarding required disclosures. The Corporation's Chief Executive Officer and Chief Financial Officer, together with management, have concluded, based on their evaluation as of the end of the period covered by the filings, that the Corporation's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer is made known to them by others within the Corporation.

Internal control over financial reporting

Under the supervision of and with the participation of Eurogas' management, including the Chief Executive Officer and the Chief Financial Officer, internal control over financial reporting has been designed and maintained in order to provide reasonable assurance regarding the reliability of financial reporting, as of the end of the period covered by the filings. During the quarter ended December 31, 2006, there have been no material changes in internal control over financial reporting. In common with many small companies, segregation of duties are difficult; however, compensating controls are in place at Eurogas, including key management authorizations and reviews.

It should be noted that while the Corporation's Chief Executive Officer and Chief Financial Officer believe that the Corporation's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met.

ADDITIONAL INFORMATION

Additional information regarding the Corporation and its business and operations is available on the Corporation's company profile at www.sedar.com. This information is also accessible on the Corporation's website at www.eurogascorp.com.

Summary Financial Information

Three months ended	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006
Sales, net of royalties				
Discontinued operations	$ 38,000	$ 25,401	$ 4,471	$ 4,505
Interest income and other	267,491	222,223	220,171	215,591
Funds from (used in) operations				
Continuing operations	(151,753)	(194,974)	(288,962)	(88,466)
Discontinued operations	(28,728)	(6,685)	(170,546)	2,839
Corporate total	(180,481)	(201,659)	(459,508)	(85,627)
Net earnings (loss)				
Continuing operations	(990,028)	(481,626)	(666,535)	(310,612)
Discontinued operations	(28,728)	(6,685)	(170,546)	2,839
Corporate total	(1,018,756)	(488,311)	(837,081)	(307,773)
Per share basic and fully diluted	(0.01)	(0.00)	(0.01)	(0.00)
Capital expenditures (gross)	1,351,721	3,027,430	2,523,231	1,501,677

Three months ended	December 31, 2005	September 30, 2005	June 30, 2005	March 31, 2005
Sales, net of royalties				
Discontinued operations	$ (4,983)	$ 84,552	$ (30,984)	$ 128,575
Interest income and other	124,443	107,688	83,404	41,758
Funds from (used in) operations				
Continuing operations	(550,097)	115,776	(470,753)	(195,187)
Discontinued operations	125,014	19,498	(114,210)	33,032
Corporate total	(425,083)	135,274	(584,963)	(162,155)
Net earnings (loss)				
Continuing operations	(611,772)	(377,683)	(639,055)	(390,288)
Discontinued operations	(129,865)	18,784	274,233	8,890
Corporate total	(741,637)	(358,899)	(364,822)	(381,398)
Per share basic and fully diluted	(0.01)	(0.00)	(0.00)	(0.00)
Capital expenditures (gross)	2,152,079	2,772,949	863,930	12,157,773

CONSOLIDATED RESULTS OF OPERATIONS – FOURTH QUARTER ANALYSIS

Interest income increased 62 percent during the quarter to $201,491 from $124,443 during the fourth quarter of 2005. The increase is a result of a higher average cash balance on hand during the quarter compared to last year. In addition to interest income, the Corporation recognized a gain on the sale of shares held in another company during the quarter.

G&A expenses for the quarter totalled $1.6 million in comparison to $675,812 during the fourth quarter of 2005. The increase is due to a one-time stock-based compensation charge of $800,000 recorded during the quarter and related to the forgiveness of a share purchase loan issued to the Corporation's former Chairman and CEO. Associated with the charge was the accrual of a bonus of $511,475. Excluding the debt forgiveness, G&A costs increased 41 percent during the quarter compared to the fourth quarter of 2005 due to increased staffing levels and increased travel by the Corporation's executive team while managing the Corporation's two international projects.

The Corporation capitalized $745,922 of G&A expenses during the fourth quarter to international projects which included $93,622 of stock-based compensation. This is a 17 percent increase over the fourth quarter of 2005 where $635,000 of G&A was capitalized, including $195,000 of stock-based compensation. The increase is associated with the Corporation's shift in business strategy, which now focuses on the Corporation's two international projects, the Castor UGS Project in Spain and exploration in Tunisia.

The Corporation recorded a $228,045 current tax recovery during the fourth quarter of 2006. The recovery is partially driven by the one-time $1.3 million charge associated with debt forgiveness booked during the quarter. During the fourth quarter of 2005, the Corporation recognized a tax provision of $67,512.

The net loss from continuing operations increased 39 percent to $990,028 from $712,732 during the fourth quarter of 2005. This increase is driven by the increased expenses recorded (net of tax) including the one-time charge as described above. The loss from discontinued operations during the quarter of $28,728 remained consistent with the loss of $28,865 recognized during the fourth quarter of 2005.

The Corporation's capital expenditures were $2.9 million during the fourth quarter of 2006, including $2.3 million in Spain and $483,962 in Tunisia. During the same quarter of 2005, Eurogas invested $2.0 million in Spain and $331,422 in Tunisia. The Corporation continued to conduct reservoir studies and associated activities during the quarter in preparation for the Castor UGS Project's FEED Study. In Tunisia, preparations continued for the drilling of REB-3.

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements, the notes thereto and other financial information contained in this annual report have been prepared by, and are the responsibility of, the management of Eurogas Corporation. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgements when appropriate.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Audit Committee, which is comprised of directors, none of whom are employees of the Corporation, meets with management as well as the external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review its consolidated financial statements and the report of the auditors. It reports its findings to the Board of Directors, which approves the consolidated financial statements.

The consolidated financial statements have been audited by Ernst & Young LLP, the independent auditors, in accordance with Canadian generally accepted auditing standards. The auditors have full and unrestricted access to the Audit Committee.

M. Jaffar Khan
President and Chief Executive Officer
March 20, 2007

Andrew Constantinidis
Vice President and Chief Financial Officer

Auditors' Report to Shareholders

To the Shareholders of Eurogas Corporation

We have audited the consolidated balance sheets of Eurogas Corporation as at December 31, 2006 and 2005 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP
Chartered Accountants

Calgary, Canada
March 20, 2007

Consolidated Balance Sheets

As at December 31	2006	2005
ASSETS		
Current		
Cash and short-term deposits	$ 18,738,542	$ 26,173,723
Accounts receivable	198,464	298,383
Prepaids and other (Note 2)	646,209	951,599
Joint venture receivable (Note 4)	463,382	550,966
	20,046,597	27,974,671
Notes receivable (Note 3)	1,166,706	1,111,353
Property, plant and equipment (Note 4)	57,701,955	49,323,051
Future income taxes (Note 11)	299,000	416,000
	$ 79,214,258	$ 78,825,075
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 5)	$ 2,948,845	$ 3,069,370
Taxes payable	53,005	78,436
Credit facility (Note 7)	–	100,000
	3,001,850	3,247,806
Asset retirement obligation (Note 9)	432,762	423,940
Non-controlling interest (Note 4)	3,946,704	3,037,990
	7,381,316	6,709,736
Commitments and contingencies (Notes 4, 5 and 11)		
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	67,719,390	66,599,048
Contributed surplus (Note 10)	2,066,878	817,696
Retained earnings	2,046,674	4,698,595
	71,832,942	72,115,339
	$ 79,214,258	$ 78,825,075

See accompanying notes.

On behalf of the Board,

Derek H. L. Buntain

Derek H.L. Buntain
Director

Garth A.C. MacRae
Director

Consolidated Statements of Operations and Retained Earnings

Years ended December 31	2006	2005
REVENUE		
Interest and other	$ 925,476	$ 357,293
	925,476	357,293
EXPENSES		
General and administrative (Note 7)	3,254,175	2,185,358
Interest (Note 7)	66,021	265,895
Depreciation and accretion	33,978	88,051
Foreign exchange loss (gain)	(61,870)	115,435
	3,292,304	2,654,739
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(2,366,828)	(2,297,446)
PROVISION FOR (RECOVERY OF) INCOME TAXES (Note 11)	81,973	(155,648)
LOSS FROM CONTINUING OPERATIONS	(2,448,801)	(2,141,798)
EARNINGS (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX (Note 8)	(203,120)	295,042
NET LOSS	(2,651,921)	(1,846,756)
RETAINED EARNINGS, BEGINNING OF YEAR	4,698,595	6,545,351
RETAINED EARNINGS, END OF YEAR	$ 2,046,674	$ 4,698,595
EARNINGS (LOSS) PER COMMON SHARE BASIC AND DILUTED (Note 10)		
Loss from continuing operations	$ (0.02)	$ (0.01)
Earnings (loss) from discontinued operations, net of tax (Note 8)	(0.00)	0.00
Net loss	(0.02)	(0.01)

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended December 31	2006	2005
OPERATING ACTIVITIES		
Loss from continuing operations	$ (2,448,801)	$ (2,141,798)
Depreciation and accretion	33,978	88,051
Provision for future income taxes (Note 11)	117,000	36,800
Unrealized exchange loss (gain)	(61,870)	355,449
Stock based compensation expense (Notes 7 & 10)	1,635,538	673,584
Abandonment and reclamation costs incurred	–	(7,241)
Funds used in continuing operations	(724,155)	(995,155)
Funds from (used in) discontinued operations	(203,120)	50,987
Change in non-cash working capital (Note 12)	(603,426)	(89,416)
Cash used in operating activities	(1,530,701)	(1,033,584)
FINANCING ACTIVITIES		
Issue of share capital, net (Note 10)	322,933	31,441,143
Rights offering costs (Note 10)	(22,035)	–
Proceeds on issuance of Partnership units (Note 4)	908,714	1,258,990
Credit facility (Note 7)	(100,000)	100,000
Notes receivable (Note 3)	(55,353)	(55,353)
Change in non-cash working capital (Note 12)	–	7,554,368
Cash provided by financing activities	1,054,259	40,299,148
INVESTING ACTIVITIES		
Proceeds on disposition of oil and gas properties (Note 4)	–	650,000
Investment in oil and gas properties	(7,970,971)	(17,510,878)
Change in non-cash working capital (Note 12)	950,363	1,148,589
Cash used in investing activities	(7,020,608)	(15,712,289)
Foreign exchange loss on cash held in foreign currency	61,870	(355,449)
INCREASE (DECREASE) IN CASH AND SHORT-TERM DEPOSITS	(7,435,180)	23,197,826
CASH AND SHORT-TERM DEPOSITS, BEGINNING OF THE YEAR	26,173,723	2,975,897
CASH AND SHORT-TERM DEPOSITS, END OF THE YEAR	$ 18,738,542	$ 26,173,723

See accompanying notes.

Notes to the Consolidated Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

Eurogas Corporation ("Eurogas" or the "Corporation") is an oil and natural gas company with a mandate to create long-term value through the development of high impact energy projects, including a major underground natural gas storage facility in Spain, and oil and natural gas exploration in Tunisia. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and reflect the following policies:

Basis of presentation

Effective June 11, 2004, Eurogas transferred all but two of its Canadian assets to Great Plains Exploration Inc. ("Great Plains"), pursuant to a Plan of Arrangement described in the Management Information Circular of Eurogas dated April 5, 2004 (the "Arrangement"). The Corporation's remaining Canadian oil and gas assets were sold effective May 1, 2005. As such, the results of operations for the Canadian oil and gas assets are presented as discontinued operations for all periods presented (Note 8).

Consolidation

The consolidated financial statements include the accounts of the Corporation and all of its subsidiaries including Eurogas International Inc, Castor GP Ltd., Castor UGS Limited Partnership, Escal UGS S.L., Amposta Energy Europe AB and Amposta Resources S.L.

Foreign currency translation

The Corporation follows the temporal method in accounting for its integrated foreign operations and translates its foreign-denominated monetary assets and liabilities at the exchange rate prevailing at year-end. Non-monetary assets and liabilities are translated at historic rates. Revenues and expenses are translated at the average rate of exchange for the year. Exchange gains or losses are included in operations. The Corporation's functional currency is the Canadian dollar and the financial statements are prepared in Canadian dollars.

Financial instruments

The Corporation's financial instruments consist of cash and short-term deposits, accounts receivable, joint venture receivable, notes receivable, prepaids and other, accounts payable, taxes payable and credit facility payable. At December 31, 2006 and 2005, the fair value of financial instruments approximated book value due to the near-term maturity or the associated interest-rate terms.

Exploration and development expenditures

The Corporation follows the full-cost method of accounting for exploration and development expenditures whereby all costs related to the exploration for and development of oil and natural gas reserves, including asset retirement costs, are accumulated in separate country-by-country cost centers. Costs include lease acquisition, geological and geophysical expenditures, carrying costs of non-productive properties, the drilling of productive and non-productive wells and related plant and production equipment costs, and that portion of general and administrative expenses and interest directly attributable to exploration and development activities. Proceeds received from the disposal of properties are normally deducted from the full-cost pool without recognition of a gain or loss. When such a disposal would alter the depletion and depreciation rate by more than 20 percent, a gain or loss would be recognized.

Pre-development costs

The Corporation is currently developing a major underground natural gas storage facility in Spain and capitalizes all costs associated with this project. The project entails the conversion of the abandoned Amposta oilfield to a major natural gas storage facility, following the extraction of existing oil reserves. The recovery of recorded costs is contingent upon economically recoverable reserves, future profitable production, the receipt of necessary governmental approvals in Spain, and the financing and construction of associated facilities for the natural gas storage facility.

In Tunisia, the Corporation is currently in the exploratory stage of its drilling programs and capitalizes all costs associated with the program. The recovery of recorded costs is contingent upon the existence of economically recoverable reserves, and future profitable production.

Ceiling Test

The Corporation evaluates its oil and natural gas assets in each reporting period to determine that the costs are recoverable and do not exceed the fair value of the properties. If the carrying value of the oil and natural gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the present value of future expected recoverable oil and natural gas volumes. The cash flows are estimated using future product prices and costs and are discounted using the Corporation's risk-free rate.

Joint venture activity

Substantially all of the Corporation's exploration, development and production activities are conducted jointly with other entities. Accordingly, the consolidated financial statements reflect only the Corporation's proportionate interest in such activities, unless the activity is conducted through a controlled subsidiary, in which case the subsidiary is consolidated with that portion held by others reflected as minority interest.

Revenue recognition

Oil and natural gas sales are recognized when title passes to an external party.

Depletion and depreciation

Depletion of oil and natural gas properties and equipment is computed using the unit-of-production method where the ratio of production to proved reserves, before royalties, determines the proportion of depletable costs to be expensed. Undeveloped properties are excluded from the depletion calculation until quantities of proved reserves are found or impairment occurs. Volumes are converted to equivalent units using the ratio of 1 barrel of oil to 6 mcf of natural gas. Depreciation of office equipment and computer equipment is provided for on a 10 percent and 35 percent declining balance basis, respectively.

Asset retirement obligation

The Corporation recognizes the fair value of legal obligations associated with the retirement and reclamation of tangible long-lived assets when the obligation is incurred, with a corresponding increase to the carrying amount of the related assets. This corresponding increase to capitalized costs is amortized to earnings on a basis consistent with depreciation, depletion and amortization of the underlying assets. Subsequent changes in the estimated fair value of the asset retirement obligation are capitalized and amortized over the remaining useful life of the underlying asset. The asset retirement obligation liabilities are carried on the consolidated balance sheet at their discounted present value and are accredited over time for the change in their present value.

Measurement uncertainty

Asset retirement obligation, depletion and ceiling test calculations are based on estimates of oil and natural gas volumes and prices, future costs and other relevant assumptions. Accruals for revenue and expenses are prepared based on estimates when actual amounts are not yet known. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future years could be significant.

Stock-based compensation

The Corporation recognizes stock-based compensation expense using the fair value method when stock options with no cash settlement features are granted to employees and directors under the Fixed Share Option Plan. Under this method, compensation expense is measured at the grant date and recognized as a charge to earnings over the vesting period with a corresponding credit to contributed surplus. The fair value of the options is determined using the Black-Scholes option pricing model. Upon the exercise of the options, consideration paid by employees or directors together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

Income taxes

All international projects are in the pre-development stage and capitalized costs to date will be available for deduction for income tax purposes in their respective jurisdictions, once commercial operations commence.

The Corporation follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change is substantively enacted. The future income tax assets are evaluated and if realization is not considered, more likely than not, a valuation allowance is provided.

Cash and short-term deposits

Cash and short-term deposits consist of cash and short-term deposits with a maturity of less than 90 days. The interest rate earned on the short-term deposits was approximately 3.8 percent during 2006.

Per share information

Basic earnings (loss) per common share are computed by dividing the net earnings (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share are calculated using the treasury stock method to determine the dilutive effect of stock options. The treasury stock method assumes that the proceeds received from the exercise of "in-the-money" stock options are used to repurchase common shares at the average market price during the year.

2. PREPAIDS AND OTHER

As at December 31, 2006, the Corporation had Value Added Tax ("VAT") amounts receivable from Spanish Authorities totaling $279,590 related to capital investment in Spain. During 2006, the Corporation received a VAT refund of $810,831 related to 2005 capital investment. VAT is refunded annually. VAT receivable has been presented as a component of prepaids and other. At December 31, 2005, VAT receivable was $781,616.

In addition, advance payments totaling $212,702 had been made to a joint venture partner in accordance with a Joint Operating Agreement. As at December 31, 2006, no costs had been incurred against the advance. The funds were spent subsequent to year-end.

3. NOTES RECEIVABLE

During 2002, the Corporation advanced funds aggregating $922,547 to certain unit holders of the Castor UGS Limited Partnership. The advances, bearing interest at 6 percent per annum, are secured by promissory notes and the respective partnership interests, and are repayable by August 1, 2012. Accrued interest of $244,159 has been included in the balance as at December 31, 2006 (2005 – $188,806). The fair value of the notes approximates the carrying value as reported on the balance sheet.

4. PROPERTY, PLANT AND EQUIPMENT

	2006	2005
Oil and natural gas properties:		
Spain	$ 36,938,661	$ 30,389,175
Tunisia	20,594,525	18,856,812
	57,533,186	49,245,987
Other:		
Furniture and fixtures	844,381	727,520
Accumulated depreciation	(675,612)	(650,456)
	$ 57,701,955	$ 49,323,051

Net capital investment during the period by cost centre was as follows:

	2006	2005
Oil and natural gas properties:		
Spain	$ 6,494,485	$ 16,693,358
Tunisia	1,792,714	1,364,097
Canada	–	(395,757)
	8,287,199	17,661,699
Other:		
Furniture and fixtures	116,860	44,179
	$ 8,404,059[(1)]	$ 17,705,878[(1)]

[(1)] Includes non-cash amounts totaling $433,088 (2005 – $195,000) related to stock-based compensation charges capitalized during the year.

a) Spain

The Corporation holds a majority interest in the Castor Exploration Permit through Castor UGS Limited Partnership ("Castor UGS LP"), which was formed in 2001. The Castor Exploration Permit covers the abandoned Amposta oilfield, on which the Corporation is developing an underground gas storage facility, the Castor UGS Project.

Eurogas invested $6.5 million during the year on its 2006 development program, which included $1.1 million on reservoir analysis and associated technical studies (2005 – nil) as well as $481,321 on oil related studies (2005 – $2.1 million). In addition, the Corporation accrued fees totaling $1.1 million (2005 – nil) on an Assistance Contract, which includes a Front End Engineering and Design study ("FEED") and has spent $299,764 on a team dedicated to coordinating and monitoring the study. The FEED will form the basis for an award of a turnkey contract for Engineering, Procurement and Construction ("EPC").

During a different phase of the project last year, the Corporation invested $16.5 million, including $10.5 million to complete the Castor #1 appraisal well, which, when added to 2004 spending, brought total drilling costs to $14.4 million. In addition, a 138 km^2 3-D seismic program over the Amposta reservoir was completed for $2.3 million, and approximately $2.1 million was spent on design activities for the gas storage facilities. The remaining expenditures consisted of general and administrative support activities capitalized to the project consistent with the pre-development phase of operations.

All administrative costs related to the Castor UGS Project have been capitalized as part of the project's pre-development phase of operations. Capitalized amounts include general and administrative ("G&A") expenditures incurred by the Corporation and its Spanish subsidiary, Escal UGS S.L. ("Escal"), consistent with prior years, and in accordance with service agreements. A total of $1.1 million (2005 – $1.6 million) of G&A costs were incurred by Escal during the year. In addition, $1.7 million of corporate G&A was capitalized during the year, including $345,214 of non-cash stock-based compensation (2005 – $666,000, including $195,000 associated with non-cash stock-based compensation charges).

Eurogas increased its interest from 72.0 percent to 73.0 percent in Castor UGS LP in 2006 following the completion of a cash call in which minority unit holders contributed $908,714 of the $1.1 million for which they were cash called.

Capital expenditures attributed to minority unit holders, but not yet recovered by the Corporation, totaled $463,382 as at December 31, 2006 compared to $550,966 last year.

b) *Tunisia*

SFAX PERMIT

Eurogas holds a 45 percent interest in the 1.0 million acre Sfax Permit, located offshore in the Gulf of Gabes, where the Corporation is a non-operating partner in the permit conducting exploration programs for oil and natural gas. The Corporation's 2006 program focused primarily on the development of the Ras El Besh ("REB-3") discovery for costs totaling $1.8 million during the year. In 2005, the Corporation spent $1.4 million which included an extensive seismic program covering the discovery area.

On July 21, 2006, the Tunisian Hydrocarbon Committee approved a Development Concession for the Ras El Besh structure. During the year, Eurogas spent $410,283 (2005 – nil) in preparation for the planned drilling of the REB-3 development well which included the purchase of select tangible equipment and planning efforts.

In addition to activities focused on the REB-3 development well, the Corporation's 2006 expenditures included its share of joint operating costs and studies conducted during the year by the permit operator totaling $696,193 (2005 – $500,905), as well as $79,356 on seismic activities (2005 – $153,884). The Corporation continues to capitalize G&A expenditures to Tunisian asset pools as part of the pre-development phase of operations. Capitalized G&A during the year totaled $521,235 (2005 – $270,000) which includes capitalized stock-based compensation costs of $87,875 (2005 – $nil). Corporate G&A costs are capitalized to international asset pools in accordance with service agreements.

During May 2006, Eurogas and its partner, Atlas Petroleum Exploration Worldwide Ltd. ("APEX"), entered into a Farmout Option Agreement (the 'Farmout') with Anadarko Petroleum Corporation ("Anadarko") for exploration on most of the Sfax Offshore Exploration Permit. Under terms of the multi-phase agreement, Anadarko has scheduled a three-and-a-half-year work program after which time, and subject to specific terms included in the Agreement, Anadarko has the ability to earn up to a 75 percent working interest in the Farmout area. Eurogas' interest would be 11.25 percent should Anadarko complete its obligations under the Agreement. Specifically excluded from the Agreement are three areas covering a total of 50,400 acres (Ras El Besh, Jawhara and Salloum). Eurogas will continue to hold its 45 percent working interest in these prospect areas.

EL HAMRA PERMIT

Effective July 22, 2005, Eurogas relinquished its interest in the 1.2-million-acre El Hamra Permit located onshore in southern Tunisia. Eurogas invested $15,164 during the year (2005 – $271,674) representing its share of total costs in accordance with a farmout agreement. As part of the agreement, the farmee made an upfront payment of US$500,000 and agreed to fund the Corporation's portion of costs related to the drilling of the EH-1 well to a total cost of US$5,000,000 of which the Corporation was responsible for its 20 percent share. The EH-1 well was drilled, tested and abandoned during the second quarter of 2005.

c) *Canada*

Effective May 1, 2005, the Corporation sold its remaining interests in Canadian oil and natural gas properties for cash consideration of $650,000. A pre-tax gain of $395,757 was booked during 2005 as follows:

Cash proceeds received	$	650,000
Net book value of Canadian assets		(426,483)
Asset retirement obligation associated with Canadian assets		172,240
Pre-tax gain on sale of Canadian assets	$	395,757

5. CONTRACT FEE PAYABLE

On October 19, 2006, the Corporation's Spanish subsidiary, Escal UGS S.L. ("Escal"), entered into an Assistance Contract with a leading industrial group in Spain, ACS Group, for the development of the Castor UGS Project. Under the terms of this contract, ACS Group will undertake the Front End Engineering and Design study ("FEED") and provide permitting and licensing services. The contract for FEED is expected to take approximately nine months, at a contract price of $461,000 per month, and will result in a fixed price determination for project investment as well as form the basis for an award of a turnkey contract for Engineering, Procurement and Construction ("EPC").

In association with the Contract, the Corporation has accrued $1,122,500 for the period from October 19 to December 31, 2006.

6. SEGMENTED INFORMATION

Activities of the Corporation are focused on international petroleum and natural gas exploration and the development of a significant underground natural gas storage project in Spain. The Corporation's total identifiable assets by geographic area, as at December 31, 2006, are as follows:

	2006	2005
Spain	**$ 38,117,812**	$ 32,386,726
Tunisia	**22,161,090**	18,903,862
Canada	**18,935,356**	27,534,487
	$ 79,214,258	$ 78,825,075

7. RELATED PARTY TRANSACTIONS

(a) Eurogas holds a $6 million revolving credit facility with Dundee Corporation ("Dundee"), the Corporation's principal shareholder. The entire $6 million was available as at December 31, 2006. The credit facility bears interest at the rate of prime (based on Canadian chartered bank rates) plus 2 percent per annum. Interest is payable monthly, in arrears.

Interest expense on amounts drawn on the facility and standby fees related to the credit facility totaled $66,021 during the year (2005 – $265,895).

(b) On May 30, 1997, the shareholders of the Corporation approved an arrangement whereby the then Chairman and Chief Executive Officer of the Corporation purchased 1,000,000 common shares of the Corporation at a price of $1.00 per share. The Corporation agreed to provide this officer with a non-interest bearing loan of $1,000,000 to finance the purchase. On December 22, 2006, the Corporation forgave the remaining $800,000 outstanding (2005 – $100,000). This amount was added to share capital and recognized as stock-based compensation during the year. All security held against the loan was released including 1,000,000 common shares of the Corporation. In addition, the Corporation accrued a bonus of $511,475 (2005 – $70,000) to the estate of the former Chairman and Chief Executive Officer.

8. DISCONTINUED OPERATIONS

Effective May 1, 2005, the Corporation relinquished all interest in Canadian oil and gas properties with the sale of its two remaining properties in Alberta and Saskatchewan for cash consideration of $650,000. Operations related to these properties are presented as discontinued operations. Also included as a component of discontinued operations, are the results from operations related to the other Canadian assets transferred to Great Plains effective June 11, 2004 in accordance with the Plan of Arrangement.

	2006	2005
REVENUE		
Oil and gas sales, net of royalties	$ 72,377	$ 177,158
EXPENSES		
Operating (recovery)	(21,285)	156,625
Depletion and accretion	–	31,456
	(21,285)	188,081
Earnings (loss) from discontinued operations before gain on sale of assets and provision for income taxes	51,092	(10,923)
Gain on sale of assets (Note 4(c))	–	395,757
	51,092	384,834
Provision for income taxes (1)	254,212	89,792
Earnings (loss) from discontinued operations, net of tax	$ (203,120)	$ 295,042

(1) The 2006 provision for income taxes includes a $178,213 adjustment related to the Corporation's 2004 Alberta Income Tax Return and a $65,000 adjustment relating to prior years as a result of an ongoing Canada Revenue Agency audit.

9. ASSET RETIREMENT OBLIGATION

The Corporation estimates its total future asset retirement obligation ("ARO") based on its net ownership interest in all wells, the estimated costs to abandon and reclaim such wells, and the estimated timing of the costs to be incurred in future periods.

As at December 31, 2006, the Corporation had net ownership of 73.0 percent in one well, Castor-1, which was drilled during the first half of 2005. To calculate the fair value of the ARO, the Corporation's estimates include total undiscounted cash flows required to settle the ARO of approximately $2.3 million, a time horizon of 35 years, a credit-adjusted risk-free rate of 7 percent and an inflation rate of 2 percent.

	2006	2005
Balance, beginning of year	$ 423,940	$ 179,481
Liabilities incurred	–	413,600
Liabilities settled	–	(7,241)
Dispositions	–	(172,240)
Accretion expense	8,822	10,340
Balance, end of year	$ 432,762	$ 423,940

10. SHARE CAPITAL

a) Issued and outstanding shares:

	Number of Shares	Amount
AUTHORIZED:		
An unlimited number of common and first preference shares, issuable in series		
ISSUED AND FULLY PAID:		
Common shares, December 31, 2004	96,851,477	$ 34,673,661
Exercise of share options (i)	866,667	248,382
Rights Offering (ii) (iii)	24,348,286	31,577,005
Forgiveness of share purchase loan (Note 7)	–	100,000
Common shares, December 31, 2005	122,066,430	$ 66,599,048
Exercise of share options (i)	1,358,333	342,377
Rights Offering (iii)	–	(22,035)
Forgiveness of share purchase loan (Note 7)	–	800,000
Common shares, December 31, 2006	123,424,763	$ 67,719,390

(i) Includes $19,444 (2005 – $26,444) related to stock-based compensation that was reclassified from contributed surplus to share capital as the options to which the stock related expired during the year.

(ii) On December 31, 2004, Eurogas closed a Rights Offering to shareholders to subscribe to 19,370,778 common shares at a subscription price of $0.39 per share. The share issue was fully subscribed raising a total of $7,554,368 and was used to finance the Corporation's drilling and exploration programs in Spain and Tunisia. Costs incurred relating to the offering of $201,025 ($117,725 net of tax) have been recorded as a reduction of share capital during 2005 (2004 – $71,134).

(iii) On October 21, 2005, Eurogas closed a second Rights Offering to shareholders to subscribe to 24,348,286 common shares at a subscription price of $1.32 per common share. The share issue was fully subscribed raising a total of $32,139,738. Offering costs net of tax totaling $22,035 have been recorded as a reduction of share capital during 2006 (2005 – $445,008).

b) *Contributed surplus:*

A summary of the changes in the Corporation's contributed surplus balance is as follows:

Years ended December 31	2006	2005
Balance, beginning of year	$ 817,696	$ 75,556
Stock options vested [1]	1,186,726	768,584
Deferred share units vested [2]	81,900	–
Options exercised	(19,444)	(26,444)
Balance, end of year	$ 2,066,878	$ 817,696

[1] Stock-based compensation expense of $753,637 was recognized during the year (2005 – $573,584). In addition, a total of $433,088 was capitalized to international asset pools during the year (2005 – $195,000). Stock-based compensation is based on the estimated fair value of options and deferred share units on the grant date in accordance with the fair value method and amounts are amortized over the vesting period of the option and deferred share units.

[2] Stock-based compensation expense of $81,900 was recognized during the year in association with deferred share units.

c) *Stock-based compensation:*

I. *SHARE OPTION PLAN*

The Corporation has established a share option plan under which directors, officers, employees and consultants are granted options to purchase common shares of the Corporation. The number of shares issuable under the plan cannot exceed 12,000,000 in total, and the number of shares issuable to any one person under the plan cannot exceed 5 percent of the total number of common shares outstanding from time to time. The exercise price of each option equals the market price of the Corporation's stock on the date of grant and options are issued with a five-year expiry term. A summary of the status of the share option plan is as follows:

	2006		2005	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Opening	4,700,000	$ 0.72	3,791,667	$ 0.24
Granted	1,330,000	1.59	1,775,000	1.53
Exercised	(1,358,333)	0.24	(866,667)	0.26
Cancelled	(66,667)	1.49	–	–
Closing	4,605,000	$ 1.10	4,700,000	$ 0.72

As at December 31, 2006, options to purchase 2,536,667 common shares were exercisable as follows:

Option Price ($)	Options Outstanding	Options Exercisable	Remaining Contractual Life (Years)
0.16	1,150,000	1,150,000	0.5
0.32	400,000	400,000	2.6
1.18	25,000	16,667	3.4
1.26	600,000	250,000	3.3
1.37	300,000	–	4.9
1.50	200,000	66,667	3.2
1.70	300,000	–	3.8
1.65	1,030,000	253,333	4.4
1.76	600,000	400,000	3.2
	4,605,000	2,536,667	

The estimated fair value of share options issued during the year was determined using the Black-Scholes model with the following weighted-average assumptions:

	2006	2005
Risk-free interest rate	6.0%	5.0%
Expected hold period to exercise	5 years	5 years
Volatility in the price of the Corporation's shares	77.6%	87.07%
Dividend yield	0.00%	0.00%

II. *DEFERRED SHARE UNIT PLAN*

During the year, the Corporation established a deferred share unit plan ("DSUP") for eligible participants. The Compensation Committee of the Board of Directors administers the DSUP, which is intended to provide participants with long-term incentive tied to the long-term performance of the Corporation's common shares. Once granted, directors will only be entitled to payment in respect of units granted when the director is no longer a director or ceases to be employed by the Corporation. Discretionary awards will be based on certain criteria, including services performed or to be performed.

The total number of deferred share units cannot exceed 4,000,000. As at December 31, 2006, 3,930,000 common shares remain available for grant under the DSUP.

d) *Net earnings per share*
The weighted average number of common shares outstanding for the year ended December 31, 2006 was 123,181,476 (2005 – 102,178,742). There were no dilutive options.

11. INCOME TAXES

The Corporation's future Canadian income tax assets are as follows:

	2006	2005
Temporary differences related to:		
Property, plant and equipment	$ 108,000	$ 154,000
Share issue costs	191,000	262,000
	$ 299,000	$ 416,000

The provision for (recovery of) income taxes differs from the amount computed by applying the combined Canadian federal and provincial tax rate of 34.49 percent (2005 – 37.62 percent) to the loss from continuing operations before taxes of $2,366,828 in 2006 (2005 – $2,297,446). The difference results from the following:

	2006	2005
Computed expected recovery of taxes	$ (816,319)	$ (864,299)
Effect on taxes of:		
International operations	506,347	519,558
Other differences	103,768	(26,689)
Non-deductible expenses	288,177	215,782
Provision for (recovery of) taxes	$ 81,973	$ (155,648)
Current tax recovery	(35,027)	(192,448)
Future tax expense	117,000	36,800
Provision for (recovery of) taxes	$ 81,973	$ (155,648)

Costs related to international operations are considered pre-development costs and therefore not subject to tax.

The 2006 provision for income taxes includes a $92,000 adjustment related to prior years as a result of an ongoing Canada Revenue Agency audit.

12. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Changes in non-cash working capital were comprised of the following:

	2006	2005
Accounts receivable	$ 99,919	$ 595,932
Prepaids and other	305,390	(330,212)
Joint venture receivable	87,584	480,854
Rights offering receivable	–	7,554,368
Accounts payable, accrued liabilities and taxes payable	(145,956)	312,599
Change in non-cash working capital	$ 346,937	$ 8,613,541
Relating to:		
Financing activities	$ –	$ 7,554,368
Investing activities	950,363	1,148,589
Operating activities	$ (603,426)	$ (89,416)

The Corporation made the following cash outlays in respect of interest expense and income taxes:

	2006	2005
Interest expense	$ 66,022	$ 214,156
Income tax	52,126	71,564

13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

14. SUBSEQUENT EVENTS

(a) Eurogas increased its interest from 73.0 to 73.7 percent in Castor UGS LP following the completion of a January 30, 2007 cash call in which minority unit holders contributed $430,002 of the $641,470 for which they were cash called.

(b) On March 5, 2007, Eurogas entered into a financial advisory agreement with Deutsche Bank whereby the bank will act as financial advisor on project financing matters related to the Castor UGS Project for a fee of $92,000 per month to a maximum $1.1 million and an additional fee based on success.

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Toronto, Canada

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President & Chief Executive Officer
London, England

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George Town, Cayman Islands

Jonathan Goodman
Toronto, Canada

R. James Kirker
Calgary, Canada

Garth A.C. MacRae (1)(2)
Toronto, Canada

Jay Poscente
Calgary, Canada

(1) Audit Committee
(2) Compensation Committee

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Bruce W. Sherley
Executive Vice President
& Chief Operating Officer

Andrew E.W. Constantinidis
Vice President
& Chief Financial Officer

Donald R. Leitch
Corporate Secretary

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Ernst & Young LLP

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Dundee Corporation
Scotiabank

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Founder, friend, explorer, entrepreneur, family man

Julio Poscente

It is with admiration and great affection that the directors, management and staff of Eurogas recall the remarkable life and career of Julio (Jules) Poscente, the founder of Eurogas Corp. and its chairman and chief executive officer for many years. A visionary entrepreneur driven throughout his career by a passion to explore internationally for large oil and natural gas deposits, Jules led Eurogas into three unique international opportunities years before they attracted the attention of the industry's major players.

As a company executive Jules practised an open management style and was excellent at teaching and mentoring colleagues and subordinates. His boundless enthusiasm and optimism helped him pass the entrepreneurial spirit to others. Jules' business career was but one aspect of the man. Jules took an avid interest in life and people, he was generous of spirit, and he shared his good fortune with others. He was a committed family man and a talented musician who played clarinet and saxophone semi-professionally for years. Jules lived an event-filled life. His worldwide travels and deal-making brought countless adventures and experiences. He loved to share these stories with family and friends – and they loved listening to them.

He commenced his career with Gulf Oil, where he worked as a draftsman, oil scout and landman. He left Gulf to launch Red Deer Minerals, a company with a solid portfolio of land holdings in Alberta and Saskatchewan. In 1972, Red Deer Minerals was acquired by Canada Northwest Energy (CNW) and Jules took on the responsibility of leading CNW into high impact international exploration, resulting in successful discoveries in the North Sea, Spain, Italy, Australia, Indonesia, and the United States. In particular, Jules was proud of the highly profitable Casablanca Field which was discovered in 1975 and is producing to this day. Jules retired as chairman of CNW in 1991 when the company was sold.

Throughout his career Jules had support from key people who believed in his vision. One of them was Bob Mitten, founder of Red Deer Minerals. Another was Ned Goodman, founder and CEO of Dundee Corporation, who was one of the initial organisers of CNW when it went from a dormant land settlement company to an oil and gas company in 1968. So when in 1995 Jules, with a rekindled spirit to do deals, identified an opportunity to participate in the massive Yaro-Yakinsk gas-condensate field in Russia, he took it to Ned Goodman, and Dundee became Eurogas' major shareholder. This first project led quickly to grassroots exploration in Tunisia, and the Castor underground gas storage project in Spain, one of the largest of its kind in Europe.

Jules remained active and engaged with his family and business affairs until two weeks before passing away on December 8, 2006. Together with his wife, Maureen, Jules was a strong supporter of the arts and charity, including the Calgary Philharmonic Orchestra and the Prep Program for Down syndrome children and their families.

Eurogas

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